

## AUDIT COMMITTEE

<b>Date:</b> Friday 6th October, 2023
<b>Time:</b> 2.30 pm
<b>Venue:</b> Mandela Room

## AGENDA

1. Apologies for Absence
2. Declarations of Interest  
To receive any declarations of interest.
3. Minutes- Corporate Affairs and Audit Committee - 15 August 2023 3 - 8
4. Section 24 Report - Delivery and Oversight Arrangements 9 - 26
5. Update on Audit of Accounts Progress 27 - 36
6. Internal Audit and Counter Fraud Progress Report 37 - 66
7. Counter Fraud Framework Annual Report 67 - 90
8. Any other urgent items which in the opinion of the Chair, may be considered.

Charlotte Benjamin  
Director of Legal and Governance Services

## MEMBERSHIP

Councillors J Ewan (Chair), J Kabuye (Vice-Chair), I Blades, D Coupe, B Hubbard, S Platt and M Storey

### **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 Tuesday 15 August 2023.

**PRESENT:** Councillors J Ewan (Chair), J Kabuye (Vice-Chair), D Coupe, B Hubbard and S Platt, J Rostron (as substitute for Cllr M Storey) and J Walker (as substitute for Cllr I Blades)

**ALSO IN ATTENDANCE:** C Cooke, Elected Mayor, P Jeffrey (Internal Auditor) (Veritau), M Rutter (External Auditor) (Ernst Young), S Reid (External Auditor) (Ernst Young), M Thomas (Internal Auditor) (Veritau), Gibby (CIPFA) and Humphrey (CIPFA)

**OFFICERS:** S Lightwing, C Benjamin, J Weston, C Heaphy, D Middleton and L Grabham

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillors I Blades and M Storey

**22/13 WELCOME AND EVACUATION PROCEDURE**

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

**22/14 DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Hubbard	Non Pecuniary	Agenda Item 8 – Middlesbrough Development Company (MDC) carried out work in Councillor Hubbard’s Ward
Justin Weston	Personal/Prejudicial	Agenda Item 8 – Non Executive Director of Middlesbrough Development Company (MDC)

**22/15 MINUTES - CORPORATE AFFAIRS AND AUDIT COMMITTEE - 20 JULY 2023**

The minutes of the Corporate Affairs meeting held on 20 July 2023 were submitted and approved as a correct record.

**22/16 ANNUAL COMPLAINTS REPORT 2021 - 2023**

A report of the Director of Legal and Governance Services was presented to provide the Committee with information about how the Council managed complaints made by local people. The report provided a summary of complaints submitted in the period 2021/2022 alongside their outcomes to demonstrate how the Council continued to learn from complaints and strengthen the complaints process.

The report provided a summary of corporate and statutory complaints covering the period 1 April 2021 to 31 March 2023. Appendix 1 to the submitted report set out the data and included:

- Volume of complaints.
- The number of complaints that were escalated to the Local Government and Social Care Ombudsman (LGSCO).
- Volume of complaints broken down by directorate.
- The outcome of complaints investigations by department.
- The percentage of complaints that were responded to in time by each department.
- Tees Valley Local Authority comparative performance in relation to complaints.

The data showed that while there had been an increase in the total volume of complaints received by the Council in 22/23, this did not translate into a corresponding increase in the percentage upheld after internal investigation. This dropped from 58.4% (21/22) to 50.5%

(22/23).

The outcome of complaints investigated by the LGSCO and the lessons the Council had learned from them were detailed in paragraphs 48 to 54 of the submitted report.

The report also provided further detail in relation to Children's and Adults' statutory complaints, directorate performance and timeliness of complaints handling.

The Council's central team also captured compliments that were submitted, however they were at a lower level. From the period April 2021 to March 2023, the central team received 46 compliments. Compliments received in other services were not centrally tracked unless passed to the central team.

The top three complaints categories continued to remain the same over the last three years. The categories with the highest number of complaints were typically those with the most contacts with customers, and as such the top three categories of complaints within the Council for the two year period were:

- Missed bin collections.
- Bin not delivered.
- Social Worker behaviour.

In relation to complaints regarding bins not delivered, it was queried whether this was a relatively new issue. The Director agreed to seek further information and provide a response. A Member commented that this situation needed addressing as lack of bins increased the number of complaints from residents in relation to bagged rubbish and fly tipping, which in turn was detrimental to the neighbourhood. The Interim Chief Executive explained that he was working with Environmental Services to understand the problems and provide resolution as quickly as possible.

A lessons learned field had been added to the ICT system used to track complaints. This allowed highlighting of issues and trends and the monitoring of improvements and actions going forward. For ongoing complaints, training continued to be available and regular meetings were held with service leads to discuss and manage complaints. Monthly performance data was also reported to support action to address compliance with complaints timescales.

The Council was committed to building on the progress that had been made to date to improve its approach to complaints, and over the next twelve months the following actions would be taken:

- Assess and review the impact of recently implemented additional measures to address the volumes of complaints about delivery of new/replacement bins.
- Improve the timeliness of children's services complaints management by implementing a new complaints process to improve use of early resolution.
- Introduce a complainant satisfaction questionnaire to identify further opportunity to improve practice.

**AGREED** that:

1. the Committee noted the complaints statistics and trends, the outcomes and lessons learned from these, and planned actions to further strengthen the management of complaints over the next twelve months.
2. the Director of Legal Services would provide a response in relation to the query regarding the delivery of new bins.

22/17

## **REVIEW OF FINANCIAL REGULATIONS**

A report of the Interim Director of Finance was presented, the purpose of which was to present an updated set of Finance and Contract Procedure Rules for the Council. This was in the context of a refreshed Constitution, of which the financial regulations were an integral part, plus governance concerns from both the external auditor and central government regarding how the Council operates. Compliance with these rules by everyone working within the Council was the cornerstone of ensuring good governance was in place.

In parallel to this work and as part of the governance improvement plan, the Constitution for the Council had also been updated. The aim was to take both the new Constitution and the Finance and Contract Procedure Rules to full Council during September 2023 for approval. Any views that Members had would be considered as part of the overall process.

An updated set of Finance and Contract Procedure Rules was attached to the submitted report. The documentation had been produced in partnership with the Chartered Institute of Public Finance and Accountancy (CIPFA), acting as external advisers.

Appendix 1 provided a summary of the main changes that had been made since the 2020 version. Appendix 2 provided the updated Rules for Members' consideration and comments. The Head of Finance and Investment and the Head of Strategic Commissioning and Procurement were in attendance at the meeting to present the summary of the main changes and answer questions in relation to the updated Rules.

The Finance and Contract Procedure Rules provided a framework for ensuring robust financial control in the financial administration of Middlesbrough Council. They set out the framework within which business was required to be conducted in a sound and proper manner, delivering value for money and minimising the risk of legal challenge. These rules set out the principles and processes that underpinned the day-to-day management of public funds. However, they were not intended to constitute a set of detailed rules to respond to every contingency.

It was anticipated that a new Procurement Bill would be brought forward by the Government in 2024 and the current Rules would need to be revised again. All future updates would be presented to the Committee.

A financial management handbook would be developed to provide more detailed operational procedures to ensure compliance with these rules. In addition appropriate training would be provided to staff and Elected Members.

With regard to the breaches of the current rules that had been identified, the Interim Director of Finance confirmed that there had not been any quantified financial losses to the Council. A further piece of work was ongoing on this area and the Corporate Affairs and Audit Committee would be informed of the findings.

It was clarified that any breach of the rules would be a disciplinary matter. The Chief Finance Officer, assisted by senior officers would be proactive in identifying non-compliance alongside a balance of education, training and ultimately, disciplinary action. In the unlikely event of an Elected Member being subject to disciplinary action it was confirmed that this would be dealt with by the Standards Committee.

Members raised several points in relation to Appendix 2 and Officers present provided explanations and noted the suggested amendments.

**AGREED** that the revised Council's Finance and Contract Procedure Rules were received and noted.

22/18

## **INTERNAL AUDIT LATEST AUDIT PRIORITIES**

The Head of Internal Audit presented a report which provided Members with an update on the latest internal audit priorities. This report was provided following a request at the previous committee meeting in July 2023 for further information on ongoing work.

The current internal audit priorities were included at Annex 1 to the submitted report. This included details of ongoing work and those audits at draft report stage. Future work planned was also included in the "do next" and "do later" categories.

**AGREED** that the Committee noted the latest priorities for internal audit work, including audits currently at draft report stage.

22/19

## **INTERNAL AUDIT REPORT - MIDDLESBROUGH DEVELOPMENT COMPANY**

A report of the Director of Legal and Governance Services was presented to set out the findings of a recently finalised investigation by the Council's Internal Audit service, Veritau.

The purpose of the investigation was to review governance arrangements against best practice guidance that had been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA), following a number of high-profile failures of Council owned companies nationally and had been requested by the Monitoring Officer.

During completion of the audit, an Executive decision was taken to endorse a proposal to close down the company and put in place alternative arrangements within the Council to manage or dispose of any assets.

A copy of the full final report was attached to the submitted report at Appendix One. The report contained one recommendation in light of the Executive decision to close down the company - that the Council should ensure the findings of the report informed future decisions around the creation of Council owned companies and their governance arrangements.

The role of the Corporate Affairs and Audit Committee was to note the findings of the work and seek assurance that any governance issues had been learned and would be applied more widely to all Council companies.

The Council had developed a policy and supporting minimum standard which set out the requirements for any Council company. This was agreed by the Executive Member for Finance and Governance on 25 July 2023.

The Council had made a number of changes to the governance of the Middlesbrough Development Company that would be in place during the wind up procedure for the company. A separate report on this would be brought forward to Executive by the Director of Regeneration who was leading this process. The report would set out the changes in detail, the actions taken to date and the planned actions that would be taken during the wind up period to ensure the Council was assured that value for money was being achieved and its financial risks were mitigated. This report would be presented to Executive in the Autumn.

In addition to the development company, there was one partly owned Council company in existence, Veritau (Tees Valley) which provided Internal Audit services to both Middlesbrough Council and Redcar and Cleveland Council. During 2023/24 a review of the governance arrangements for this company would be undertaken to ensure it complied with this policy. This would be conducted by the Section 151 Officer as the Leadership Management Team officer with responsibility for Internal Audit and tracked as an action within the Annual Governance Statement covering the 2022/23 period, for action in 2023/24.

Several Members voiced their concerns in relation to the potential for conflict, lack of scrutiny or business plan, and poor governance of the Middlesbrough Development Company. It was confirmed that although the Company's accounts were submitted late, there had been no financial penalties applied. It was also noted that whilst the Company was still incurring expenditure, this would be addressed during the wind up procedure.

Attention was also drawn to the fact that one month prior to the Executive decision to close down the Company, at a meeting of the Overview and Scrutiny Board, there had been no mention of any concerns or difficulties relating to the Middlesbrough Development Company.

The Mayor was in attendance at the meeting and suggested that the findings of the audit report and the lessons learned should be shared with the other Tees Valley Local Authorities and the Tees Valley Combined Authority. The Mayor's suggestion was put to the Committee and unanimously agreed.

With the consent of the Chair, a member of the public asked a question in relation to verification of a project. The Monitoring Officer suggested that the question was submitted in writing so that an answer could be provided.

**AGREED** as follows that the Corporate Affairs and Audit Committee noted the:

1. content of the internal audit review appended to the submitted report.
2. action taken to date to address the concerns raised in the report.

3. further planned actions in relation to the governance of partly and wholly owned Council companies.
4. findings of the audit report and lessons learned would be shared with the Tees Valley Local Authorities and the Tees Valley Combined Authority.

22/20

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

None.

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	The Chief Executive, Director of Finance and Director of Legal and Governance Services
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<b>Submitted to:</b>	Audit Committee
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<b>Date:</b>	6 October 2023
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<b>Title:</b>	Section 24 Report – Delivery and oversight arrangements
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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>	Not applicable
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<b>Executive summary</b>	<p>This report sets out the planned reporting arrangements for delivery of the action plan that was agreed by Council on 18 September 2023, in response to 11 statutory recommendations made by the Council’s External Auditors Ernst &amp; Young LLP (EY), exercising their powers under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014.</p> <p>The agreed recommendations and supporting action plan that was agreed by Council on 18 September 2023 is at Appendix1 of this report.</p>
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## **Purpose**

1. This report sets out the planned reporting arrangements for delivery of the action plan that was agreed by Council on 18 September 2023, in response to 11 statutory recommendations made by the Council's External Auditors Ernst & Young LLP (EY), exercising their powers under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014.

## **Background and relevant information**

2. On 21 August 2023, the External Auditor issued a report to update on the Council's Value for Money arrangements and issued 11 statutory recommendations in relation to required improvement in the Council's governance arrangements. This is the culmination of the review of the Council's progress since the External Auditor initially made 7 non-statutory recommendations within their 2020/21 Audit Results Report which was considered by Corporate Affairs and Audit Committee in July 2022.
3. At the July 2022 meeting, the Council's three statutory officers (Chief Executive, Director of Legal and Governance Services and Director of Finance) submitted a report entitled 'Commencing a Corporate Governance Improvement Journey' that set out how the Council intended to respond to those concerns.
4. In November 2022, EY issued a progress report, assessing delivery against the non-statutory recommendations. At that time, EY judged that steps taken were in line with expectations and the future actions identified to date appeared to be appropriate steps towards addressing both the depth and breadth of cultural and governance issues at the Council. However, they had some concerns about whether the actions would create a real positive cultural change within the organisation.
5. Since November 2022, while progress has continued to be made, the Council's External Auditors have assessed that while there are signs of improvement in the pace at which the Council is addressing the significant cultural and governance weaknesses, the Council has not made the overall progress that it expected to see since November 2022. The report reflects the auditor's view of the entire period from November 2022 to August 2023.
6. In addition, three further significant weaknesses have been identified, in relation to financial sustainability, contracting and procurement and Middlesbrough Development Company.
7. At a meeting of full Council on 18 September 2023, all 11 recommendations were unanimously accepted and an action plan to address them was agreed in the same meeting.

## **Oversight of delivery against the action plan**

8. Going forward, progress against the action plan will be reported to this committee as a standing item until delivery of all actions is complete.

- 9. Progress will also be reported to the Independent Improvement Advisory Board (IIAB) that has been established to oversee delivery of the Council’s Corporate Governance Improvement Plan, as set out in the report to Council on 18 September 2023 that outlined phase three of the Corporate Governance Improvement Plan.
- 10. Both the Chair of the IIAB and the Council’s three statutory officers will also meet regularly with both the External Auditor and the Department of Levelling Up, Housing and Communities in separate meetings to discuss the Board’s independent view of the Council’s progress against both the Section 24 action plan and phase three of the Corporate Governance improvement Plan. Progress against the CGIP will be reported as a standing item to each ordinary meeting of full Council to maintain member visibility.
- 11. Since the report was approved by Council on 18 September 2023, two actions have been completed in line with their target dates:

Action	Supporting information
Review and relaunch of use of Purchasing Cards, for essential users only and subject to mandatory training	Review of all existing purchasing cards completed. Process in place for reducing the number of cards across the business and mandatory training developed for cardholders identified moving forward. Training for the initial cohort will be complete by November 2023 and then there will be a rolling programme of training aligned with the assignment of cards going forward.
Identify any remaining pre-2021 ‘open’ exemptions	Completed. Some exemptions were identified as a result of this exercise, a full analysis of this will be reported to this Committee in December within the annual assurance report on Procurement activity.

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

- 12. That Audit Committee agrees the proposed monitoring arrangements.

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

- 13. The Council must respond effectively and at pace to the statutory recommendations if it is to meet its Best Value duty and return to a stable and financially sustainable organisation that meets the needs of the citizens of Middlesbrough.
- 14. Member oversight will be a key step in both delivery of these actions and provision of assurance that they are having the intended impacts they were designed to do to address the governance weaknesses identified by the Council’s External Auditors.

15. Failure to deliver against the statutory recommendations could result in the External Auditor exercising their further powers with the potential for Public Interest Report
16. This could then lead to a further escalation of intervention by the Department for Levelling Up Homes and Communities (DLUHC) who have the ultimate power of appointing independent Commissioners to run the Council which may include the suspension of the democratic processes of the Council which would remove the decision-making role of all elected members.

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

17. Not applicable.

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

***Legal***

18. Schedule 7 of the Local Audit and Accountability Act 2014 required full Council to consider the statutory recommendations. Full council approved actions in response to the statutory recommendations and it is no incumbent on the council to appropriately monitor progress against those recommendations. It is proposed that Audit Committee fulfil this important function.

***Strategic priorities and risks***

19. If the Council fails to respond effectively to the recommendations of its External Auditors, EY, this will have a negative impact on the following strategic risks:
- Failure to meet a balanced budget.
  - Risk of an unlawful decision by the Council.
  - Corporate governance is not fit for purpose.

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

20. Not applicable.

***Financial***

21. The implementation of the action plans will be delivered through a combination of existing staff resources and additional capacity as indicated within the action plan.
22. In particular, the development and implementation of a transformation programme to return the Council to a position of financial stability and sustainability will require substantial investment. The investment will be quantified as an integral part of the 2024/25 Council Plan, budget setting and MTFP process as individual service transformation plans are developed.

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

Action	Responsible Officer	Deadline
Delivery of standing item reports on progress against the Section 24 recommendations to this committee	Head of Governance, Policy and Information	31/12/2024

## Appendices

<b>1</b>	Middlesbrough Council Action Plan
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## Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	Lessons Learnt: Best Value Inspection of Liverpool City Council	5 Aug 2021
Corporate Affairs and Audit Committee	Boho X: Draft findings from internal audit and proposed management response	6 Apr 2022
Corporate Affairs and Audit Committee	Audit Results Report 2020/21	22 Jul 2022
Corporate Affairs and Audit Committee	Statement of Accounts 2020/21	22 Jul 2022
Corporate Affairs and Audit Committee	Lessons learned: Best Value and external assurance within other councils.	22 Jul 2022
Corporate Affairs and Audit Committee	Commencing a corporate governance improvement journey	22 Jul 2022
Council	Corporate Governance Improvement Journey: CIPFA findings and next steps	19 Oct 2022
Council	Corporate Governance Improvement Plan and progress update	30 Nov 2022
Corporate Affairs and Audit Committee	External Audit: Value for Money Governance Update	5 Dec 2022
Council	Corporate Governance Improvement Plan and progress update	18 Jan 2023
Corporate Affairs and Audit Committee	Statement of Accounts 2020/2021	28 April 2023
Corporate Affairs and Audit Committee	Auditor's Annual Report – Year Ended 31 March 2021	29 June 2023
Council	Corporate Governance Improvement Next Steps	5 July 2023
Council	Section 24 Statutory EY recommendations	18 September 2023

### Contact:

Ann-Marie Johnstone, Head of Governance, Policy and Information.

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<p><b>1. We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan.</b></p>			
<p>The Council recognises the seriousness of the culture and governance challenges facing it that have been raised by our external auditors and the Department of Levelling Up, Housing and Communities. It is fully committed to ensuring that the organisation's collective effort is fully focussed on addressing these weaknesses at pace, to ensure that we work at pace to embed a more positive culture, alongside effective governance arrangements.</p> <p>This will require the Council to be fully focussed on the issues within the Corporate Governance Improvement Plan and committed to its delivery. This is reflected in the profile of activity that is included in the Plan which is to be presented to Council on 18 September 2023.</p> <p>The proposed scope has been reduced to remove Social Care and Regeneration. The draft plan also clearly states that addressing the cultural and governance issues within the Council is the priority and the most significant challenge it faces.</p>			
<b>Planned action(s)</b>	<b>Target date</b>	<b>Responsible officer</b>	<b>Status</b>
Proposed plan developed with addressing Cultural and Governance issues the focus of the plan.	8/9/2023	Chief Executive	Complete
Presentation of Phase 3 of the Corporate Governance Improvement Plan – addressing all auditor recommendations at full Council, for approval / implementation.	18/09/2023	Chief Executive	Complete
Appointment of the Independent Improvement Advisory Board membership.	22/09/2023	Chief Executive	Complete
First meeting of the board to be held to provide oversight, support and challenge to Middlesbrough's improvement and transformation journey working with established and proven sector leaders. It will particularly focus on the need for the Council to ensure it complies with its Best Value Duty under the Local Government Act 1999.	6/10/2023	Chief Executive	On target- to be held 2/10/2023

<p><b>2. We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions.</b></p>			
<p>A workstream has been developed within the Corporate Governance Improvement Plan, under the cultural transformation theme to address this recommendation. The activity within that workstream includes a plan to reduce the number of posts in leadership positions that are occupied by interim staff. In addition, there is also a commitment to developing a protocol that articulates the formal arrangements that will be put in place for key statutory posts to ensure continuity within them arising from staff turnover or long periods of absence.</p>			
<b>Planned action(s)</b>	<b>Target date</b>	<b>Responsible officer</b>	<b>Status</b>
Complete recruitment process for all interim appointments in a Leadership Management Team position	30/03/24	Head of HR	On target
Completion of a senior Management Review including review of spans and layers within the organisation	30/09/24	Chief Executive	On target
Development of a Workforce Plan to reduce the need to use interim appointments in senior leadership positions within the Council	30/09/24	Organisational Development Manager	On target
Develop a protocol that articulates the formal arrangements that will be put in place to ensure improved continuity across key statutory posts and protection of key governance processes	30/11/24	Director of Legal and Governance Services	On target
<p><b>3. We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice, and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented.</b></p>			
<p>The Council has engaged external expertise and capacity for the last 6 months in order to conduct a fundamental review of its Constitution. This has including ongoing engagement with Members and Officers to identify areas of concern and reflect feedback from the governance improvement journey to date.</p> <p>The draft Constitution and supporting Contract and Financial Procedure Rules documents were presented to the Constitution and Member Development Committee in August 2023. Corporate Affairs and Audit Committee have also been presented with the draft Contract and Financial Procedure Rules for comment. The Council has worked at pace to</p>			



<p>also ensure briefings have been made available for all Members on the key changes, this has culminated in submission of the draft Constitution and supporting documents to the Council meeting on 18 September 2023.</p> <p>Upon adoption of the new Constitution, a planned training programme, covering Corporate Governance disciplines, will be rolled out. This will be a mix of remote, digital and face to face learning. The aim of the programme, led by the Council's Organisational Development team is to deliver effective training to officers and Members that will improve understanding of corporate governance disciplines, provide clarity on expectations around behaviours, outline expected accountabilities and responsibilities and set out the organisation's clear expectation that processes must be adhered to. Once delivered, it will be embedded within business-as-usual training and development for staff as part of the People and Cultural Transformation Strategy delivery. That training programme will include an interactive e-learning module that all staff will be required to complete, with alternative arrangements in place for those who do not access Council ICT systems on a regular basis.</p>			
Planned action(s)	Target date	Responsible officer	Status
Presentation of an updated / refreshed Constitution at full Council for consideration, approval, and implementation.	18/09/2023	Director of Legal and Governance Services	Complete
Following approval of the refreshed Constitution, mandatory e-learning for all staff will be delivered that will provide an overview of the Constitution, the Council's values and supporting codes of conduct.	31/12/2023	Director of Legal and Governance Services	On target
Completion of delivery of the Corporate Governance training programme to all senior managers	31/3/2024	Director of Legal and Governance Services	On target
<p><b>4. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities.</b></p>			
<p>Robust budget management, monitoring and forecasting arrangements were introduced early in Quarter One (April – June 2023) in order to establish a firmer grip upon budgetary control and forecasting, including development of insight into cost and income drivers that can be better controlled and influenced through managing operations.</p>			

<ul style="list-style-type: none"> <li>▪ Chief Officers have committed to Budget Accountability letters which demonstrate their leadership and commitment to deliver services in a financially sustainable way.</li> <li>▪ Monthly budget challenge sessions chaired by the s151 Officer for each Directorate in order to focus upon areas of overspending and identify opportunities for delivering savings, income and efficiency opportunities.</li> <li>▪ The Chief Executive holds Chief Officers to account for their financial performance through monthly LMT budget review meetings.</li> <li>▪ Quarterly budget challenge sessions are chaired by the Executive Member for Finance &amp; Governance for each Directorate attended by relevant Chief Officers and Executive Members enabling a collaborative approach and ownership of financial management issues by the Mayor and the Executive.</li> <li>▪ Indefinite spending restrictions issued by the s151 Officer with effect from 1 July 2023 including:             <ul style="list-style-type: none"> <li>○ vacancy control measures applicable to all permanent recruitment, engagement of agency and interim staff</li> <li>○ increased monitoring of expenditure on travel and other expenses to ensure essential spend</li> <li>○ establish monitoring and action to drive compliance with contract procedure rules including focus upon off-contract expenditure and compliant use of purchasing cards</li> </ul> </li> <li>▪ Development of improved budget monitoring tools and tracking of expenditure rates for review and challenge by Chief Officers.</li> <li>▪ Chief Officers to develop Directorate Financial Recovery Plans to reduce the forecast overspend and deliver services within the approved 2023/24 budget. Actions to include review of service levels and revise operations, reduce, stop activities and some service provision, deliver efficiency, increase income generation.</li> </ul>			
Planned action(s)	Completion date	Responsible officer	Status
Monthly budget challenge sessions commenced.	30/05/23	Director of Finance (S151 Officer)	Complete
<p>Monthly budget challenge sessions will continue to establish deep-dive reviews of high-spending areas, alongside identifying opportunities to reduce expenditure and increase income to remain within budget.</p> <p>This includes review and challenge of levels of service provision for services that deliver both statutory and non-statutory responsibilities.</p>	31/3/2024	Director of Finance (S151 Officer)	On target

Spending controls will remain, until further notice. Management information on supplies and services, travel, and other expenses to be routinely provided to Chief Officers to enable monitoring of compliance, alongside feedback of any management actions undertaken.	31/03/2024	Chief Executive / Director of Finance (S151 Officer)	On target
Weekly LMT Vacancy Control Panel in place to review, challenge and approve business cases for essential vacancies in permanent establishment and only critical engagement of interim capacity. All vacancy applications will need to consider if they can be filled internally before going external to the market.	31/03/2024	Director of Finance (S151 Officer)	On target
Review and relaunch of use of Purchasing Cards, for essential users only and subject to mandatory training.	30/09/2023	Director of Finance (S151 Officer)	Complete
Purchase Card activity to be reported to Chief Officers monthly.	31/10/2024	Director of Finance (S151 Officer)	On target
Chief Officers to establish management overview arrangements to ensure compliance with contract and financial procedure rules in respect of use of Purchase Cards.	31/10/2024	Chief Officers	On target
Review of income from fees and charges including in-year uplift for inflation.	28/02/2024	Director of Finance (S151 Officer)	On target
<b>5. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieves the outcomes required for the resources invested. Where opportunities to improve service delivery models re identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.</b>			
It is clear that the Council needs to establish a Transformation Programme in order to redesign its services to operate form a significantly lower cost base and to embed a continuous improvement approach over the longer term. Work is underway to develop the Transformation Programme as part of the 2024/25 Council Plan and Medium Term Financial Plan (MTFP) development process. Robust programme governance arrangements will be established, and the capacity required to deliver will be secured in order to support the delivery of the Council Plan within a framework of more robust governance and cultural improvement.			

The primary source of funding to deliver transformation in the context of the Council's depleted revenue reserves, will be through the Flexible Use of Capital Receipts in accordance with Government statutory guidance. This requires the Council to generate a pipeline of capital receipts from the sale of surplus assets to fund the investment in transformation.			
Planned action(s)	Completion date	Responsible officer	Status
The Council's strategic planning and budget development process for setting a balanced budget for 2024/25 and over the period of the MTFP to 2026/27 is in progress and will address opportunities for: <ul style="list-style-type: none"> <li>- Managing service demand</li> <li>- Service redesign</li> <li>- Service transformation</li> <li>- Reducing levels</li> <li>- Stopping services service</li> </ul>	28/02/2024	Chief Executive / Director of Finance (S151 Officer)	On target
The development of a first stage transformation programme that will run from 2024/25 through to 2026/27 will be the vehicle through which service delivery models will be reviewed, in order maintain or improve service outcomes from an affordable and sustainable cost base.	28/02/2024	Chief Executive	On target
Establishment of appropriate transformation governance framework and suitable capacity and capability to enable delivery of transformation programme	31/03/2024	Chief Executive	On target
Review of the Council's asset base to identify surplus assets for sale to generate capital receipts as the primary source of financing this, as an invest to save programme using Flexible Use of Capital Receipts Policy.	30/11/2023	Director of Regeneration and Culture	On target
<b>6. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/2023 and 2023/2024 financial years and ensure future forecasting reflects lessons learnt.</b>			
In common with many other local authorities, the Council faces significant financial challenges due to persistently high inflation, market forces and increased demand for its services in adult social care, children's social care, home to school transport and homelessness in the post Covid-19 period which have been extremely difficult to predict and are driving much of the financial pressure currently facing the Council. Nevertheless, there is scope for continuous improvement in the methodologies adopted for modelling demand and unit cost of these and other service areas. This will draw upon			

demographic data, service and market intelligence in order to develop improved forecasting techniques that will support future budget setting, monitoring and forecasting.			
Planned action(s)	Target date	Responsible officer	
Develop and implement more robust demand and cost modelling and forecasting, in relation to demand-led, high-spending service areas such as Adults and Children's Social Care, homelessness, home to school transport and waste disposal. Models will use key cost and income drivers to enable cost and activity modelling and variance analysis.	31/03/2024	Director of Finance (S151 Officer) / Chief Officers	On target
Implementation of forecast demand models over the medium to long-term, using a combination of demographic data and trends combined with scenario planning and sensitivity analysis.	30/09/2024	Head of Financial Planning and Support / Heads of Service	On target
Implementation of monthly budget monitoring and forecasting to analyse cost and volume variances, driving proactive management intervention in services to address areas of overspend and income shortfalls.	30/04/2024	Head of Financial Planning and Support / Heads of Service	On target
Adopt sensitivity analysis and scenario planning during budget development to inform level of required contingency and reserves, transferring to business-as-usual business process.	28/02/2024	Head of Financial Planning and Support	On target
<b>7. We recommend that the Council conclude its review of its Financial and Contract Procedure rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure rules do not currently address contract extensions.</b>			
The Council has engaged external expertise to support the fundamental review of the Financial and Contract Procedure rules which has been delivered over the summer with the revised rules being presented for consideration at Council on 18 September 2023.			
Planned action(s)	Target date	Responsible officer	Status
Revised Financial and Contract Procedure rules drafted and presented to Audit Committee.	15/08/2023	Director of Finance (S151 Officer)	Complete

Revised Financial and Contract Procedure rules drafted and presented to Constitution Committee.	16/08/2023	Director of Finance (S151 Officer)	Complete
Revised Financial and Contract Procedure Rules approved at full Council.	18/09/2023	Director of Finance (S151 Officer) / Monitoring Officer	Complete
<b>8. We recommend that, once the Financial and Contract Procedure rules are finalised, training is provided to all officers who are involved in contracting, procurement or financial decision making to ensure that the Financial and Contract Procedure rules are understood and adhered to.</b>			
The Council is committed to embedding responsibility and accountability for financial governance, financial management and control into the business-as-usual operations of the organisation. Strong and effective financial management underpins the success of any organisation. Following Council approval of the rules, training and development sessions will be delivered to ensure Chief Officers, Heads of Service and budget holders understand their roles and responsibilities in relation to financial and contract governance and that there is clarity provided around expected behaviours and the consequences of failure to adhere to policies and procedure rules. Delivery of the training will be monitored through the Corporate Governance Improvement Plan and regular updates provided to Members and External Audit on its overall delivery.			
<b>Planned action(s)</b>	<b>Target Date</b>	<b>Responsible officer</b>	<b>Status</b>
All Council staff to undertake mandatory e-learning procurement training.	31/10/2023	Director of Finance (S151 Officer)	On target
All budget managers and staff involved in purchase to pay activities, to undertake mandatory face-to-face training.	31/03/2024	Director of Finance (S151 Officer)	On target
Chief Officers, Heads of Service, all budget managers, and Finance Directorate, to undertake mandatory face to face training on Financial and Contract Procedure rules.	31/12/2023	Director of Finance (S151 Officer)	On target
Delivery of training in budget management for Chief Officers, Heads of Service and Budget Managers as part of the Corporate Governance Training Programme	31/03/2024	Director of Finance (S151 Officer)	On target
Develop budget management and purchase to pay dashboards to drive compliance through improved management information.	31/03/2024	Director of Finance (S151 Officer) / Monitoring Officer	On target

Deliver mandatory training in budget management tools for Chief Officers, Heads of Service and Budget Managers	31/03/2024	Director of Finance (S151 Officer) / Monitoring Officer	On target
Develop and deliver improved training and tools for all users of the Council's corporate finance system to facilitate compliance.	30/06/2024	Director of Finance (S151 Officer)	On target
Establish compliance and enforcement protocols to embed the governance arrangements into operational practice.	31/03/2024	Director of Finance (S151 Officer) / Monitoring Officer	On target
<b>9. We recommend that the council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any further remedial action is necessary.</b>			
Work has already started to review contract exemptions awarded to review compliance with the Public Contract Regulations 2015 and to ensure compliance with approved procurement processes going forward. The results of this review will be reported to Audit Committee in due course.			
<b>Planned action(s)</b>	<b>Completion date</b>	<b>Responsible officer</b>	<b>Status</b>
Identify all exemptions approved, since 2021.	06/09/2023	Head of Strategic Commissioning and Procurement	Complete
Cross-reference exemptions with contract register to determine position, regarding each award.	01/11/2023	Head of Strategic Commissioning and Procurement	On target
Identify any remaining pre-2021 'open' exemptions.	27/09/2023	Head of Strategic Commissioning and Procurement	Complete
Cross-reference exemptions with contract register and determine position, regarding each award.	08/11/2023	Head of Strategic Commissioning and Procurement	On target

Submit initial progress report to Audit Committee.	14/12/2023	Head of Strategic Commissioning and Procurement	On target
Identify and resolve any outstanding compliance requirements.	13/02/2024	Head of Strategic Commissioning and Procurement	On target
Submit final report to Audit Committee.	14/03/2024	Head of Strategic Commissioning and Procurement	On target
Establish a bi-annual reporting schedule of approved exemptions and extensions to Audit Committee	01/04/2024	Head of Strategic Commissioning and Procurement	On target
<b>10. We recommend that the council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period.</b>			<b>Status</b>
<p>A review has been completed of the governance and oversight arrangements for the Middlesbrough Development Company. The review has completed an assessment of the company against the recently adopted Council policy that provides a policy framework against which it can assess the governance arrangement of Partly and Wholly Owned Council Companies. All company activities have now ceased as part of delivery of the action plan to close the company down.</p> <p>The outcome of the review was presented to Executive on 6 September 2023. There is a commitment within the Executive report to either provide quarterly reports on progress and continued compliance with the action plan and governance arrangements of the company, or provide a report to confirm closure, which is expected to be complete before the first quarterly report would be due.</p>			Complete
Provision of a closure report or the first quarterly monitoring report if closure of the company has not been closed before the first quarter has passed since the Executive report.	31/12/2023	Director of Regeneration	On target



<b>11. We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.</b>			<b>Status</b>
The report to Executive on 6 September 2023 also included an action plan which has been in place and developed since the Executive decision in January 2023. Completion of the outcome of a full reconciliation of the Company's accounts and assets will be set out within the final report that will be considered by Executive once closure is complete.			Complete
Provision of a closure report on the company to Executive	31/12/2023	Director of Regeneration	On target

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Interim Director of Finance (S151 Officer)
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	6 October 2023
<b>Title:</b>	Update on Audit of Accounts progress
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Strategic priority:</b>	All
<b>Key decision:</b>	Not applicable
<b>Why:</b>	Report is for information only
<b>Urgent:</b>	Not applicable
<b>Why:</b>	Not applicable

<b>Executive summary</b>	
<p>This report updates the Committee on the current progress with the 2021/22 external audit of the Council’s Statement of Accounts. This is in the light of much longer audit processes for the previous two sets of accounts for 2019/20 and 2020/21. In addition, the Council’s draft Statement of Accounts for 2022/23 has not yet been published due to the need to take account of audit adjustments to the 2021/22 ongoing audit.</p> <p>The issue of local authority statutory audits over-running and being significantly behind statutory deadlines is not just an issue affecting this Council but is a national one faced by many local authorities. The report sets out the main reasons for the delays and gives some information to allow Members to understand the scale of the national problem facing local government.</p> <p>The Department for Levelling up Homes and Communities (DLUHC) has set out proposals to address the audit backlog for consultation. The measures ultimately taken could have significant implications for the current and future audits of statutory accounts and impacting upon local authority finance teams, external auditors, and Members as they consider and approve sets of accounts going forward.</p>	

## **Purpose**

1. To update the Committee on the audit of the Council's Statement of Accounts and provide new information on action proposed by DLUHC to address the current audit backlog.

## **Background and relevant information**

2. This report provides an update on the outstanding audit of the Council's Statement of Accounts for 2021/22. In addition, the Council draft accounts for 2022/23 have yet to be finalised for publication although the statutory date for doing this was 31 May 2023.
3. There is also an update from DLUHC in relation to the national backlog of audits currently outstanding within the local government sector and initial proposals on how to address this.
4. The completion of the external audit of the Council's last two years financial statements and value for money assessment took significantly longer to finalise than in previous years:
  - a. For 2019/20, this was completed on 2 March 2021 (the statutory date for these audited accounts was 30 November 2020).
  - b. For 2020/21, this was completed on 29 April 2023 (the statutory date for these audited accounts was 30 September 2021).

In previous years to these, the statutory deadlines had been achieved.

5. The reasons for the delays have been reported to this Committee several times before. However, for new members of the Committee, these can be grouped into three main categories:
  - 1) Onerous regulatory requirements for external auditors, mainly from the National Audit Office and the Financial Reporting Council. This has required extensive additional work to be undertaken and evidence to be gathered by auditors as part of their examination of the Council's financial statements and transactions. This has been in response to a high number of corporate failures in the private sector.
  - 2) A significant amount of additional work has been required on the value for money assessment, mainly in relation to the Ofsted judgement on the quality of Children's Services being delivered by the Council, and the governance issues within the Council which has recently led to a set of statutory recommendation being issued.
  - 3) Extra work, evidence and focus on the Going Concern Assessment, given the well-publicised issues on local authorities and their financial sustainability.
6. In addition, there have been resource constraints and recruitment issues within both the Council's financial team and for Ernst & Young (EY), our external auditors, over most of this period.
7. Prior to this, in June 2019 the then known Ministry of Housing, Communities and Local Government, commissioned a review of the effectiveness of local audit and the

transparency of local authority financial reporting. The review, published in September 2020, is known as the Redmond Review. A report to this Committee on 4 March 2021 which gives further details. The timing of that review indicated that there were issues with the local audit market before the impact of the pandemic, namely the growing regulatory demands on audit partners for additional diligence in their review of all systems supporting the production of an authority's accounts. The additional work placed upon authorities to respond to the pandemic and associated accounting and reporting requirements, further compounded the challenges and resulting delays that were already prevalent in audits of the local government sector. Similar themes to those highlighted above.

### **The Accounts and Audit Regulations**

8. The Accounts and Audit Regulations 2015 set out the detailed requirements for local authorities in relation to its annual audit and accounting processes. From the outset of the pandemic in 2020, the Government have extended the deadlines for producing a draft set of accounts and for those accounts to be audited.
9. The following table sets out the dates the Council published its draft accounts in comparison to the required statutory dates:

Financial Year	Due date	Published date
2022/23	31/05/2023	Pending
2021/22	31/07/2022	08/08/2022
2020/21	31/07/2021	20/07/2021
2019/20	31/08/2020	16/07/2020
2018/19	31/05/2019	24/05/2019
2017/18	31/05/2018	23/05/2018
2016/17	31/05/2017	23/05/2017

10. The deadline for publication of the draft accounts for 2022/23 was consulted on by DLUHC during April 2023 due to some concerns as to whether this could return to normal following the pandemic. The outcome of this was announced on 3 April 2023 and the deadline returned to 31<sup>st</sup> May date. There is no penalty for failing to meet the statutory deadlines. However, it is important for local authorities and their stakeholders to have assurance of the Council's financial position and therefore timely reporting and audit is an essential aspect of robust financial management. For recent years the statutory deadlines can be summarised as:

Financial Year	Draft Accounts	Audited Accounts
2018/19	31-May	30-Sep
2019/20	31-Aug	30-Nov
2020/21	31-Jul	30-Sep
2021/22	31-Jul	30-Nov
2022/23	31-May	30-Sep

11. The percentage of Councils that met these dates in 2021/22 was 9% of English local authorities for the draft accounts and for the audited accounts was 12%, even though the deadline was re-aligned back two months to 30 November, from the 30 September the previous year.

12. The table below shows the recent data on (A) the number of audit opinions that remained outstanding and (B) the proportion of audits that were completed by the audit deadline.

Financial Year	(A) Outstanding audits at 30 Nov 2022	(B) % of audits completed by the due date
2015/16	1	97%
2016/17	1	95%
2017/18	3	87%
2018/19	10	57%
2019/20	45	45%
2020/21	161	9%
2021/22	411	12%

13. Despite the obvious difficulty for local authorities to meet the less stringent deadlines of the past 3 years, the revised deadline has been reduced by 2 months for the financial year 2022/2023 to reinstate the original statutory deadline of 31 May. The Council has not yet issued the draft statutory accounts due to the need to take account of audit amendments that are likely to flow from the 2021/22 audit.

### **Update form DLUHC (July 2023)**

14. Lee Rowley, the parliamentary under-secretary of state for local government and building safety, outlined proposals in a letter to Clive Betts, chair of the Levelling Up, Housing and Communities (LUHC) Committee inquiry into financial reporting and audit in local authorities. The proposals include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

15. Working together, the National Audit Office (NAO) and DLUHC intend to set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present.

16. It should be noted that it has been highlighted that to achieve these deadlines, it may result in qualifications and disclaimers of opinions on statutory accounts in the short term for a number of local bodies.

17. DLUHC confirm that the proposals have been agreed in principle with key partners across the local audit system. The National Audit Office (NAO) is considering whether to develop a revised Code of Audit Practice to give effect to the changes. Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years. Under these proposals, Section 151 officers will be expected to work with Audit Committee members to approve the final accounts by the statutory deadline for the audit opinion to be issued at the same time.
18. The proposed deadlines being considered for audit completion (or 'backstop' dates) are set out as follows but it should be noted that these are not yet confirmed:

Financial Year	Deadline
2015/16 – 2019/20	31/12/2023
2020/21 – 2021/22	30/03/2024
2022/23	30/09/2024
2023/24	31/03/2025
2024/25	30-09/2025

### **Statement of Accounts audit for 2021/22 & Draft Accounts for 2022/23**

19. The draft Statement of Accounts for 2021/22 was authorised for issue by the former Director of Finance on 8 August 2022. They were subsequently presented to this Committee on 29 September 2022. EY have been working on the 2021/22 audit of accounts with the internal finance team since the start of September 2022. There was a period of concentrated work on this audit between early September 2022 and the end of March 2023. At that point, the audit was paused to allow the finance team to focus on the closure of accounts process for 2022/23 and to prepare a draft Statement of Accounts for the latest financial year.
20. At the end of March 2023, a significant number of queries had been received on the draft 2021/22 accounts and responded to (200+). The bulk of the key audit items (review of the Statement of Accounts full document, review of the individual financial statements and notes to the accounts prepared, initial work on value for money, sampling of year end accruals, etc.) had been either completed or advanced to a satisfactory degree. Weekly meetings had been undertaken between EY and the Council's finance team to review both queries raised and the overall progress on the audit. At present, around two thirds of the audit fieldwork have been completed.
21. The audit for 2021/22 was due to re-commence in mid-July 2023, post the closure of accounts for 2022/23. Due to the announcement by DLUHC in relation to the proposed re-set of the audit market and the need for external audit firms to respond in terms of the impact upon their scheduling of all outstanding audits, EY have not re-started this work. At the end of September, no further work has been undertaken on the financial statements audit, apart from a specific review of the Collection Fund bad debt provision methodology in line with changes in accounting standards requested by the s151 Officer to enable finalisation of the 2022/23 draft accounts as set out below. EY may be able to give a further verbal update at the meeting and their plans to complete the 2021/22 financial statements audit.

22. There are several key areas within the 2021/22 audit that still need to be completed. One area that EY have been working on relates to the Collection Fund Bad Debt provision. The debt on both council tax and business rates is around £50m in total, so any judgement on the level of bad debt provision is significant. The Council reviewed its bad debt provision formula in 2021/22 because of comments made on the previous year's audit and a general recognition that the existing provision was overstated in comparison to neighbouring authorities.
23. Also, given recent changes in relation to IAS 37 on provisions and contingent liabilities, the accounting standard that informs the local authority accounting code in this area, a stronger link was needed between the provision being held in the accounts and the actual collection of council, tax, and business rates debts from within the local community. The final bad debt provision included within the 2021/22 accounts was around £36m. This included the element of a new formula and a buffer for future collection issues, following the pandemic. Officers are in discussion with the external auditor in relation to this change which could result in a material adjustment to the 2021/22 accounts and will need to be fed through the 2022/23 draft accounts.
24. As a result of this potential audit adjustment and any possible changes needed for opening balances for the 2022/23 accounts, plus the delay in restarting the 2021/22 audit whilst awaiting further details from DLUHC, the Director of Finance has decided that the 2022/23 accounts will be published once the adjustment has been determined to enable her to be satisfied that the accounts present a true and fair view of the Council's financial position at 31 March 2023. It is anticipated that the 2022/23 draft pre audited accounts will therefore be signed and issued before the end of this calendar year to enable the audit to commence subject to EY's planned approach. and will be brought for consideration by this Committee at the earliest opportunity thereafter.

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

This report is for information only. No decisions are required from Members.

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

25. Given that the audit for the 2021/22 accounts and preparation of the 2022/23 accounts are currently out of cycle and behind the statutory dates. It is useful for the Committee to receive regular updates on progress and to consider the implications and any actions required.

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

26. Not Applicable for this report.

#### ***Legal Implications***

27. The publication of the draft statement of accounts is a legal requirement under the Accounts & Audit Regulations 2015.
28. As the Council is not currently achieving the statutory dates for the audit of its accounts, a notice has been included on the Council website to this effect in line with



the regulations. This allows any stakeholders to be aware of this position, when looking for or reviewing the Accounts. The 2015 regulations allow for this and the audit of the accounts to continue under this provision.

### **Strategic priorities and risks**

29. As the Statement of Accounts covers all financial transactions of the Council and various other corporate financing reporting responsibilities, it encompasses all strategic priorities and risks.

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

30. There are no relevant considerations in these areas in respect of this report.

### **Financial Implications**

31. The Council has a corporate budget for external audit fees. This has been under significant pressure in recent years due to the length of recent audit processes and the additional workload required from the auditors to give an opinion on both the financial statements and the value for money assessment.

32. The table below was included by EY in their 2020/21 annual audit letter and illustrates the scale of the fee increases in recent years. 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>

33. The audit fees are set by the Public Sector Audit Appointments (PSAA), the government agency responsible for managing the external audit contracts nationally with audit firms. For the Council, they consist of base (scale) fee for auditing the

Council and a separate fee for auditing the Teesside Pension Fund. For both 2019/20 and 2020/21, these were set at a total of £110,550.

34. Due to changes in the risk and regulatory environment and additional work required in relation to the value for money assessment, fees have increased. Additionally, EY have undertaken work in respect of several grant claims on behalf of relevant bodies. The total fees payable has ended up much higher than the original base levels set by PSAA. £230,290 for the 2019/20 audit and £448,531 for the 2020/21.
35. As audit work is performed once the relevant financial year's accounts are closed, in general these costs for accounted for one year in arrears in line with when the audit work is undertaken. The costs for the 2021/22 audit were accounted for in the 2022/23 accounts and the costs for the 2022/23 audit will be accounted against the current financial year 2023/24 and 2024/25 financial year. Given the ongoing nature of the audit for 2021/22, an estimate was made in 2022/23 accounts for the total expected cost of the audit. This was estimated at a total of £400,000 to reflect a similar cost for the financial statements' element but a slightly reduced cost on the value for money work, but this will only be known with certainty once the audit is complete.
36. A similar estimate of £400,000 is also being used for the 2022/23 audit with costs expected to fall at the latter end of 2023/24 and into 2024/25. as this information is required as part of the current budget monitoring process. The allocated budget for audit fees is £182,000, resulting in a £218,000 overspend. This is being managed as part of the overall corporate financial position for the Council.
37. PSAA undertook the latest national procurement of audit contracts during 2022. These contracts commence from the 2023/24 audit. As part of the roll-out of the new contracts, they need to consult with audited bodies on the recommended level of base fees to charge for the financial year. Given the fact that these fees have become outdated and are not in line with the actual work involved as part of the external audit, it is not a surprise that PSAA have taken the opportunity to increase these significantly.
38. The 2023/24 fees being consulted on for Middlesbrough are £321,074 for the Council audit and £102,380 for the Teesside Pension Fund audit. A total of £423,454. This would bring the fees broadly in line with the last fully complete external audit and just slightly higher than current expected costs. The additional costs will need to be incorporated into the Medium-Term Financial Planning process, as the first financial year these increased base fees will affect is 2024/25.

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

Action	Responsible Officer	Deadline
Not Applicable for this report		

## Appendices

1	There are no appendices to this report
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## Background papers

Body	Report title	Date
Corporate Affairs & Audit Committee	Draft Statement of Accounts 2021/22	29 September 2022
Corporate Affairs & Audit Committee	Audited Statement of Accounts 2020/21	29 April 2023

**Contact:** Justin Weston, Head of Finance & Investments  
**Email:** justin\_weston@middlesbrough.gov.uk

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Head of Internal Audit, Veritau
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<b>Submitted to:</b>	Corporate Affairs and Audit Committee
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<b>Date:</b>	6 October 2023
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<b>Title:</b>	Internal audit and counter fraud progress report
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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>	No
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<b>Why:</b>	Not applicable
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<b>Urgent:</b>	No
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<b>Why:</b>	Not applicable
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<b>Executive summary</b>
<p>This report provides the committee with an update on internal audit and counter fraud work undertaken.</p>

## **Purpose**

1. To provide Members with an update on the delivery of internal audit and counter fraud work and on reports issued and other work completed since the last update report to this committee.

## **Background and relevant information**

2. Internal audit provide independent and objective assurance and advice on 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.
3. 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.
4. Fraud is a significant risk to the public sector. Annual losses are estimated as being as high as £58 billion in the United Kingdom. Veritau are engaged to deliver a counter fraud service for Middlesbrough Council. The service helps the Council to mitigate fraud risks and to take appropriate action where fraud is suspected.
5. The purpose of this report is to provide an update on internal audit and counter fraud work carried out in 2023/24. The Council's internal audit and counter fraud work programmes were approved by this Committee in June 2023.

## **Internal Audit Progress report**

6. The internal audit progress report is contained in appendix 1. This includes a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

## **Counter Fraud Progress report**

7. The counter fraud progress report is contained in appendix 2. A range of work is detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.

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

That the Corporate Affairs and Audit Committee:

- Notes the latest update on internal audit and counter fraud work.

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

8. Internal audit professional standards require that progress in delivering internal audit work, and the findings and outcomes from audit work are reported to the committee.

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

9. This report is for information. There are no other options available.

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

***Legal***

10. There are no specific impacts or implications.

***Strategic priorities and risks***

11. There are no specific impacts or implications.

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

12. There are no specific impacts or implications.

***Financial***

13. There are no specific impacts or implications.

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

Action	Responsible Officer	Deadline
n/a	n/a	n/a

## Appendices

1	Internal audit progress report October 2023
2	Counter fraud progress report October 2023

## Background papers

Body	Report title	Date
n/a	n/a	n/a

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# INTERNAL AUDIT PROGRESS REPORT

Date: 5 October 2023

Appendix 1





## BACKGROUND

- 1 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.
- 2 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.
- 3 The internal audit work programme was agreed by this committee in June 2023. The plan is flexible in nature and work is being kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the Council.
- 4 The purpose of this report is to update the committee on internal audit activity up to 26 September 2023.



## INTERNAL AUDIT PROGRESS

- 5 Since the last progress report to this committee, we have made good progress with ongoing audit work. We have finalised a number of audits and have prioritised work in Children's Services including procurement cards (which is now in draft) and agency staff. We have also started a number of new audits across the Council.
- 6 A summary of internal audit work currently underway, as well as work finalised during 2022/23 is included at annex A, below. We currently have three audits at draft report stage, and we are currently awaiting a response from the relevant officers to the findings identified.
- 7 The work programme showing current priorities for internal audit work is included at annex B. Alongside the work in the 'do now' and 'do next' categories we show when work commenced or is expected to commence, and when the findings are expected to be reported to the Committee. These timescales are subject to change and work priorities may also change during the year depending on an ongoing consideration of risk.
- 8 The programme includes several audits in the 'do later' category. The internal audit work programme is designed to include all potential areas that should be considered for audit in the short to medium term, recognising that not all of these will be carried out during the current year (work is deliberately over programmed). We have changed the priority of some audits due to the changes in senior leadership within Children's Services.
- 9 Seven audit reports have been finalised since the last progress report to this committee in July 2023. The audit of the Middlesbrough Development

Company was included as part of a separate report to the Committee meeting in August. A summary of the findings from the remaining five audits are included at annex C.

- 10 Annex D lists our current definitions for action priorities and overall assurance levels.

## FOLLOW-UP OF AGREED ACTIONS

- 11 All actions agreed with services because of internal audit work are followed up to ensure that underlying control weaknesses are addressed. A summary of follow up work is included at annex E.

## ANNEX A: 2023/24 INTERNAL AUDIT WORK

### Audits in progress

Audit	Status
Tees Community Equipment Service	Draft report issued
Homecare	Draft report issued
Procurement cards (Children's Services)	Draft report issued
Domestic abuse	In progress
Selective landlord licensing	In progress
Public health governance	In progress
Debtors	In progress
Teesside Pension Fund – Administration	In progress
Main accounting	In progress
Treasury management	In progress
Agency staff (Children's Services)	In progress
Use of residential care	In progress
Health and safety	In progress
Benefits and Council Tax Support	In progress
IT applications	In progress

### Final reports issued

Audit	Reported to Committee	Opinion
Supplier relief	July 2023	No opinion given
Middlesbrough Development Company	August 2023	No opinion given
Children's commissioning & contract management	October 2023	Limited Assurance
Disabled Facilities grant	October 2023	Substantial Assurance
Schools themed audit – Schools Financial Value Standard	October 2023	Reasonable Assurance
Regeneration projects	October 2023	Substantial Assurance
Disaster recovery (IT)	October 2023	Substantial Assurance
Council Tax and NNDR	October 2023	Substantial Assurance

**Other work in 2023/24**

Internal audit work has been undertaken in a range of other areas during the year, including those listed below.

- A review of grant claims including the Family Life and Hubs grant and the Children's Services Practice Improvement grant.
- A review of returns completed by the Council for the Supporting Families scheme.
- A review of effectiveness of arrangements in place to manage subcontractor systems and controls in relation to Middlesbrough Council's Community Learning Service (MCLS).
- Support and advice on improvements to processes in the Teesside Pension Fund.

## ANNEX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Corporate &amp; cross cutting</b>			
<b>Category 1 (do now)</b>			
Procurement cards	This is now at draft report stage. The audit looked at use of procurement cards in Children’s Services. When finalised, we are planning to do further work on use of procurement cards in other directorates.	April 2023	December 2023
Agency staff	Fieldwork is underway.	August 2023	December 2023
Health and safety	Planning has commenced.	September 2023	March 2024
Procurement	Planning has commenced.	September 2023	March 2024
<b>Category 2 (do next)</b>			
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.	December 2023	July 2024
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		

<sup>1</sup> This is the expected date the audit findings will be included in reports to the Corporate Affairs and Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Corporate Affairs and Audit Committee. After the current meeting, the next two scheduled reporting dates to Committee are December 2023 and March 2024.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
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 these 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 allocate time 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 the continuing pace of technological change. Risks may also have changed as a result of the recent office move to 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 the leadership team to plan and manage projects so that objectives and deliverables are 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, and housing regeneration in Gresham. This audit 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 <sup>1</sup>
<b>Financial / Corporate systems</b>			
<b>Category 1 (do now)</b>			
Debtors	Fieldwork is underway. There have been delays in progressing this audit in order to prioritise the audit of purchasing cards.	April 2023	December 2023
Teesside Pension Fund – Administration	Planning has commenced. The start of the audit was delayed due to completing unplanned grant claim work relating to Homes England.	September 2023	March 2024
Main accounting	Fieldwork is underway.	August 2023	December 2023
Treasury management	Planning has commenced.	September 2023	March 2024
Benefits & Council Tax Support	Planning is due to commence once the council tax / NNDR audit is finalised.	October 2023	March 2024
<b>Category 2 (do next)</b>			
VAT accounting	This area has not been reviewed for some time.	December 2023	July 2024
Payroll	This is a key financial system requiring effective internal controls.	December 2023	July 2024
Creditors	This is a key financial system requiring effective internal controls.	December 2023	July 2024



Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q34 onwards:		
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls. This has been moved from do next, due to the knock on effect of delays to the pension administration audit.		
<b>ICT</b>			
<b>Category 1 (do now)</b>			
IT Applications	Planning underway. This will review the Liquid Logic care system and the HR system.	September 2023	December 2023
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		
IT asset management	This is now a potential audit for later in the year due to the implementation of Office 365 and the higher priority of the IT applications audit.		
Cyber security	Cyber threats are a high risk for all organisations and it's therefore essential that controls are in place to manage the risks they present.		
<b>Operational audits</b>			
<b>Category 1 (do now)</b>			
Tees Community	This is at draft report stage. The audit was delayed due to other priority audit work. The audit also involves multiple service areas, which has	October 2022	December 2023

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Equipment Service	impacted on completion time. The draft report was originally issued in June 2023. Discussions with officers about the findings are ongoing.		
Homecare	This is at draft report stage. Whilst the specification was agreed in November 2022, fieldwork did not commence until 2023.	November 2022	December 2023
Domestic abuse	Fieldwork is underway. The audit has been delayed due to difficulties in receiving information. .	May 2023	December 2023
Public health governance	Fieldwork is underway. There have been some delays in receiving information.	May 2023	December 2023
Supporting families	Quarterly review of grant claims. Q1 is complete.	Ongoing	Ongoing
Selective landlord licensing	Fieldwork is complete.	July 2023	December 2023
Use of residential care	Fieldwork is underway.	September 2023	December 2023
<b>Category 2 (do next)</b>			
Early years funding	Planning has commenced. The audit is likely to be delayed due to the changes in senior management in Children's Services.	December 2023	July 2024
Ofsted Improvement Plan	This remains a high risk for the Council and progress is regularly reported to the Executive. We have completed work on the Improvement Plan in the past. We have agreed with the Director of Finance to defer work on this until the new Director of Children's Services is appointed.	December 2023	July 2024

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Commercial property income	The Council has a portfolio of commercial property which it leases out. This was identified as an area of risk by DMT due to the increasing number of tenants. The audit will review the processes involved to onboard tenants, manage income and undertake debt recovery.	December 2023	July 2024
Direct payments	High inherent risk due to potential fraud and the complexity of care packages. The area has not been reviewed for some time.	December 2023	July 2024
Continuing healthcare (CHC)	CHC is a key area for adult social care budget management. This includes the pressures caused by hospital discharges.	December 2023	July 2024
<b>Category 3 (do later)</b>			
	These are audits which are under consideration for Q4 onwards:		
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.		
Social care transitions (Children's to Adult's)	This was identified as a significant risk at DMT due to the pressures on resources, and the increasing number and complexity of individual cases. This audit may include several different aspects including financial and non-financial.		
Schools themed audit	We allocate time as part of the audit programme to look at aspects of governance and financial management across schools, as part of themed audits. Priorities for themed audits will be agreed with officers. One area being considered is management of school exclusions.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
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 arrangements to regenerate housing provision in the Council area.		
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 this 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 resulted in the need for various service improvements being identified. 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.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
	Implementation will depend on whether the bridge is returned to operational use.		

## ANNEX C: SUMMARY OF KEY ISSUES FROM AUDITS FINALISED SINCE THE LAST REPORT TO THE COMMITTEE

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Disabled facilities grant	Substantial Assurance	Policies, grant assessments, monitoring, resolving of issues.	28 June 2023	A strong control framework is in operation.	None	0	0
School's themed audit - Schools Financial Value Standard (SFVS)	Reasonable Assurance	Review and scrutiny by governors, completion of the SFVS, remedial actions.	27 July 2023	Council staff were not aware of changes to the SFVS and did not update their evidence requirements, not all submissions had sufficient evidence.	An annual process to review the SFVS requirements will be introduced, checks will be made to ensure all submissions are correct.	0	5
Regeneration projects	Substantial Assurance	A review of 5 projects against the project management framework.	2 August 2023	We found good compliance to the project management framework.	None	0	0
Disaster recovery (IT)	Substantial Assurance	Roles and responsibilities, disaster recovery plans, backups, lessons learned.	13 September 2023	Effective controls are in place however the Council has not tested all of their disaster recovery arrangements.	A full disaster recovery test will be carried out.	0	1

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Council Tax and NNDR	Substantial Assurance	Policies & procedures, write-offs, discounts & reliefs.	26 September 2023	A strong control framework is in operation.	None	0	0

## Limited Assurance reports

System/area	Opinion	Area reviewed	Date issued
Children's commissioning and contract management	Limited Assurance	Management of the provider framework, outcomes for children, value for money, contract management. The fieldwork was carried out in 2022 and some of the actions have now been implemented. Full details are below.	21 September 2023

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## Summary of actions agreed

Finding	Priority	Agreed Action	Responsible Officer	Timescale
There was no evidence of analysis taking place for the Council to improve the current provider portfolio	2	At the time of the fieldwork of the audit (which commenced in February 2022) the main strategic focus was on the existing internal placements as the framework was still in operation therefore there was less	Specialist Commissioning & Procurement Senior Manager	Implemented

Finding	Priority	Agreed Action	Responsible Officer	Timescale
through documented gap analysis and forward planning.		focus on the review of external market and placements. Since the audit there have been a further two block contracts secured and an in-house residential project has been scheduled to increase capacity – this commenced in February 2023.		
		A project plan has been in place since April 2023 which has been approved by Executive. Further work will be rolled out regarding gap analysis as part of the project.		31 December 2023
There is little documented evidence available of provider networking and engagement.	2	Ongoing provider engagement happens through various forums which take place such as the Regional IFA Forum, Tees Valley Residential Forum, South Tees Residential Provider Meeting, Provider Support Meetings – daycare and these meetings are documented.	Specialist Commissioning & Procurement Senior Manager	Implemented
		A documented engagement action plan will be developed which will document the engagement and forward planning activities with the provider market that the current Commissioning Team currently undertake.		31 December 2023
The information referred to commissioning is inconsistent in detail and quality.	2	Placement Panel meetings are now taking place and are chaired by a senior representative in Children’s services.	Specialist Commissioning & Procurement Senior Manager	Implemented
		A quality assurance process will be developed to ensure referrals being sent		31 December 2023



Finding	Priority	Agreed Action	Responsible Officer	Timescale
		through to commissioning meet quality standards.		
There is no document in place which outlines the arrangements for a placement prior to being reviewed and approved for residential care.	2	All placements are now approved at Directorate level and are documented and discussed at placement meetings.	Specialist Commissioning & Procurement Senior Manager	Implemented
		Commissioning will develop a breakdown of fees for new placements which are placed through spot contracts.		31 December 2023
No evidence could be obtained that the cost of all ongoing placements are periodically reviewed.	2	A placement Manager was appointed in April 2023 and to date all placement costs have been reviewed with a clear savings tracker in place.	Specialist Commissioning & Procurement Senior Manager	Implemented

## ANNEX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

### Audit opinions

Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of the audit.

Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

### Priorities for actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

## ANNEX E: FOLLOW UP OF AGREED AUDIT ACTIONS

Where weaknesses in systems are found by internal audit, the auditors agree actions with the responsible manager to address the issues. Agreed actions include target dates and internal audit carry out follow up work to check that the issue has been resolved once these target dates are reached. Follow up work is carried out through a combination of questionnaires completed by responsible managers, risk assessment, and by further detailed review by the auditors where necessary. Where managers have not taken the action they agreed to, issues are escalated to more senior managers, and ultimately may be referred to the Corporate Affairs and Audit Committee.

### Actions completed

One action has been completed since the last report to this committee. This was a priority 3 action relating to the audit of xx.

### Actions Outstanding

A total of 18 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below.

Actions agreed		Actions agreed by directorate						
Priority of actions	Number of actions agreed	Priority of actions	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
1	5	1	0	0	5	0	0	0
2	11	2	1	0	8	1	0	1
3	2	3	0	0	0	0	2	0
<b>Total</b>	<b>18</b>	<b>Total</b>	<b>1</b>	<b>0</b>	<b>13</b>	<b>1</b>	<b>2</b>	<b>1</b>

Of the 18 actions outstanding 15 have had a revised date agreed. The remaining 3 are currently being followed-up.

**Actions outstanding for more than 6 months (Priority 1 and 2)**

Eleven P1 or P2 actions have currently been outstanding for more than 6 months. Of these, 8 relate to the audit of the Transporter Bridge and details have been reported previously to this committee. These relate to operational issues and will not be dealt with until the bridge is brought into operation for which there is no agreed date.

We will monitor the position and follow up again when there is a plan for it to become operational but will remove from follow up reporting to this committee until that point.

Details of the remaining three actions are included in the table below. Revised dates have been agreed and we will follow these up when the new implementation dates becomes due.

Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Debtors	2	30/09/2021	30/09/2023	The VAT Officer will investigate those cases identified during the audit and will provide further training and guidance for relevant staff.	<p>There was a delay in progressing this action due to the Council recruiting a new VAT officer.</p> <p>A new VAT officer is now in place who will investigate and produce some key points on the incorrect VAT treatment with further guidance provided where necessary.</p>

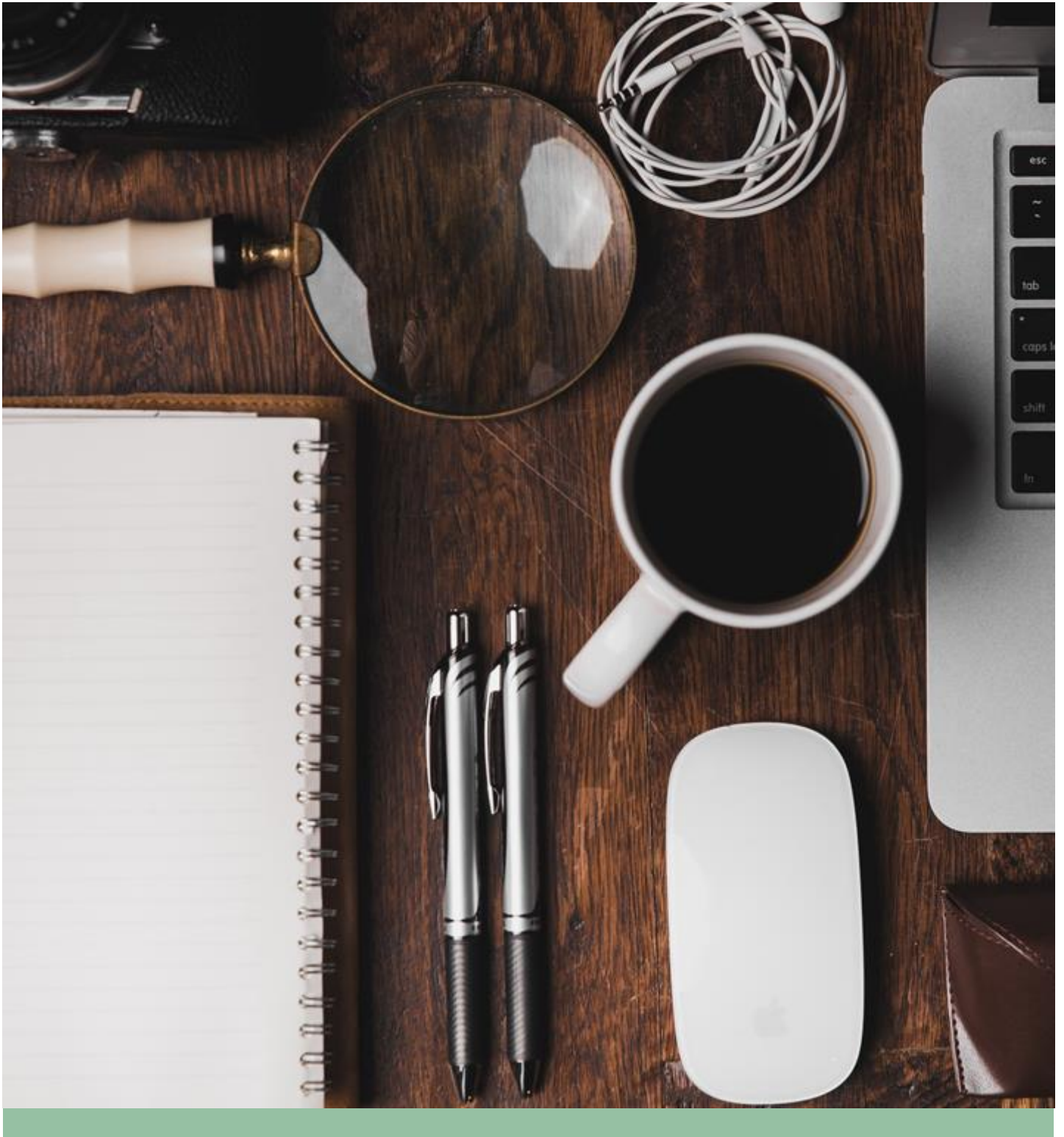
Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	2	31/12/2022	30/09/2023	A charter is being developed to clarify the role of the Council in respect of death registration, burials and cremations. The charter will be completed in conjunction with the Head of Democratic Services clarifying the roles, responsibilities and expected conduct of the Council in relation to death registration, burials and cremations, as well as the expected conduct of Funeral Directors. The charter will include a section relating to expected behaviour based on the Council's dignity & respect Policy and clarify the hierarchy of actions the council will take in the event that the standards are not maintained.	The service have requested a delay due to some ongoing operational issues which are having an effect on implementing the actions.
Burials	2	31/12/2022	30/09/2023	The arrangements for same day burials including the out of hours service will be reviewed and the circumstances in which they are offered documented.	

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# COUNTER FRAUD PROGRESS REPORT

Date: 5 October 2023

Appendix 2





## BACKGROUND

- 1 Fraud is a significant risk to the public sector. The government estimated that between £33.2 and £58.8 billion of public spending was lost to fraud in 2020/21<sup>1</sup>. Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. The counter fraud team investigate allegations of fraud, plan and take part in counter fraud campaigns (eg the National Fraud Initiative), undertake fraud awareness activities with staff and the public, and maintain and update the Council's counter fraud framework and associated policies.
- 3 This report updates the Corporate Affairs and Audit Committee on counter fraud activity in 2023/24.



## FRAUD MANAGEMENT

- 4 Veritau worked with the Human Resources department to update the Council's whistleblowing policy. The updated policy was finalised in June 2023. It reflects national guidance and best practice. The policy introduces more detailed guidance for managers on how to address whistleblowing concerns. A central log of whistleblowing reports is now being maintained by Veritau. With the support of the communications team the revised whistleblowing policy was highlighted to all Council employees as part of World Whistleblowers' Day on 23 June.
- 5 The Council participated in a National Day of Action against Blue Badge fraud in June 2023, alongside 80 other councils. The exercise involved making checks on blue badges displayed in the town to determine if they were being properly used by legitimate badge holders. The counter fraud and neighbourhood safety teams worked together to check 38 badges on the day which resulted in one penalty charge notice (PCNs) being issued. Nationally 5000 badges were inspected, 196 PCNs were issued, and 92 badges were seized.



## MULTI-AGENCY WORK

- 6 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and other public sector bodies in the UK. The work of the NFI is overseen by the Public Sector Fraud Authority (PSFA) and the exercise runs every two years. The results of the 2022/23 datamatching exercise (5000 matches in total) are currently being reviewed by the counter fraud team and other teams across the Council.

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<sup>1</sup> [Tackling fraud and corruption against Government](#), National Audit Office



## INVESTIGATIVE WORK

- 7 Between 1 April and 31 August 2023, the counter fraud team received 47 referrals of suspected fraud. These cover potential council tax fraud, council tax reduction fraud, internal fraud and debt recovery issues. Referrals have been made by members of staff, the NFI, and the public. Ten investigations have been completed this year and there are currently 24 cases under investigation.
- 8 Investigative work in 2023/24 has identified £33k of loss to the Council to date. The counter fraud team supports the Council to recover debts identified as part of investigations. Counter fraud savings are also tracked by monitoring repayments to the Council and calculating the value of stopping ongoing fraud. To date £11k of counter fraud savings have been generated.

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Head of Internal Audit, Veritau
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<b>Submitted to:</b>	Corporate Affairs and Audit Committee
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<b>Date:</b>	6 October 2023
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<b>Title:</b>	Annual Counter Fraud Framework Report
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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>	No
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<b>Why:</b>	Not applicable
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<b>Urgent:</b>	No
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<b>Why:</b>	Not applicable
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<b>Executive summary</b>	
<p>This report details the annual review of the Council’s counter fraud framework. It includes an updated action plan associated with the Council’s Counter Fraud and Corruption Strategy and an updated assessment of fraud risk the council faces, both of which the committee is asked to note.</p>	

## **Purpose**

1. To update members on the impact of fraud nationally and in particular on local authorities; summarise outcomes from the annual review of the Council's counter fraud policy framework; and present an updated Counter Fraud Strategy action plan and Fraud Risk Assessment.

## **Background and relevant information**

2. The Corporate Affairs and Audit Committee has a responsibility under the Council's constitution to keep under review the Council's counter fraud framework which is made up of policies such as the Anti-Fraud, Bribery, and Corruption Policy.
3. To protect public funds, it is important for the Council to have a framework in place to prevent, detect and deter fraud, and to recover any losses. A strong anti-fraud framework that minimises loss through fraud and error will ensure that the Council has more resources available to focus on providing services for people with the greatest needs, which is fundamental to tackling inequality and poverty.
4. The annual counter fraud framework report is included in appendix 1 to this report.

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

That the Corporate Affairs and Audit Committee notes:

- the updated Counter Fraud Strategy Action Plan
- the Fraud Risk Assessment

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

5. A strong counter fraud framework that minimises loss through fraud or error and maximises recovery could mean the Council has more resources to achieve its strategic aims and to provide services for people with the greatest needs. All councils have a duty to protect public funds.

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

6. This report is for information. There are no other options available.

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

### ***Legal***

7. There are no specific impacts or implications.

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

8. There are no specific impacts or implications.

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

9. There are no specific impacts or implications.

**Financial**

10. There are no specific impacts or implications.

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

Action	Responsible Officer	Deadline
n/a		

**Appendices**

1	Annual Counter Fraud Framework Report
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**Background papers**

No background papers were used in the preparation of this report.

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# COUNTER FRAUD FRAMEWORK REPORT

5 October 2023



## Appendix 1

Assistant Director - Corporate Fraud:  
Jonathan Dodsworth

Head of Internal Audit: Max Thomas



## INTRODUCTION

- 1 Fraud has become the most common offence in the UK, accounting for 41% of all crime<sup>1</sup>. Fraud threats continue to evolve with new tools and techniques being used, and increasingly originates nationally and internationally as opposed to locally.
- 2 Fraud is a significant risk to the public sector. The government estimated that between £33.2 and £58.8 billion of public spending was lost to fraud in 2020/21<sup>2</sup>. At a local level, fraud can impact a council's ability to support public services and cause reputational damage.
- 3 To effectively combat fraud councils should have a counter fraud framework that helps to prevent, detect and deter fraud. Counter fraud work needs to develop at least as quickly as the techniques used by fraudsters.



## NATIONAL PICTURE

- 4 The government has indicated that they will create a new corporate criminal offence of Failure to Prevent Fraud as part of a range of reforms within the Economic Crime and Corporate Transparency Bill. Organisations will be held liable if fraud offences are "committed by an employee or agent, for the organisation's benefit, and the organisation did not have reasonable fraud prevention procedures in place<sup>3</sup>." The offence will only affect larger organisations that meet two of the following criteria: more than 250 employees, more than £36m turnover, or more than £18m in assets. If found guilty organisations could receive an unlimited fine. There is still some question as to whether local authorities could be found guilty of the proposed offence, but council owned businesses, council contractors, and charities that work with councils could be affected.
- 5 The Public Sector Fraud Authority (PSFA) was launched in August 2022. The organisation seeks to modernise the government's counter fraud response. They have taken on responsibility for the National Fraud Initiative (NFI) from the Cabinet Office. The NFI is an exercise that matches data within and between public and private sector bodies to prevent and detect fraud. All local authorities are required to take part. Sitting within the National Counter Fraud Data Analytics Service, the NFI is likely to benefit from the use of new technology, including artificial intelligence.
- 6 Covid-19 payments to businesses and the public concluded last year. Councils across the country have been working with the former Department for Business, Energy and Industrial Strategy (BEIS) to complete reconciliation and assurance exercises. BEIS estimates that 8.4% of payments (£985m nationally) was lost to fraud from the initial

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<sup>1</sup> [Progress Combatting Fraud \(43rd Report of Session 2022-23\)](#), Public Accounts Committee, House of Commons

<sup>2</sup> [Tackling fraud and corruption against Government](#), National Audit Office

<sup>3</sup> [Factsheet: Failure to Prevent Fraud Offence](#), HM Government



Covid-19 schemes at the start of the pandemic (eg the Small Business Grant Fund and Retail Hospitality and Leisure Grant Fund)<sup>4</sup>. Later schemes lost 1% (£83m) of payments due to fraud (eg the Additional Restriction Grant and Omicron Hospitality and Leisure Grant). Councils and central government are currently working together to recover money lost due to fraud through Covid-19 grant schemes.

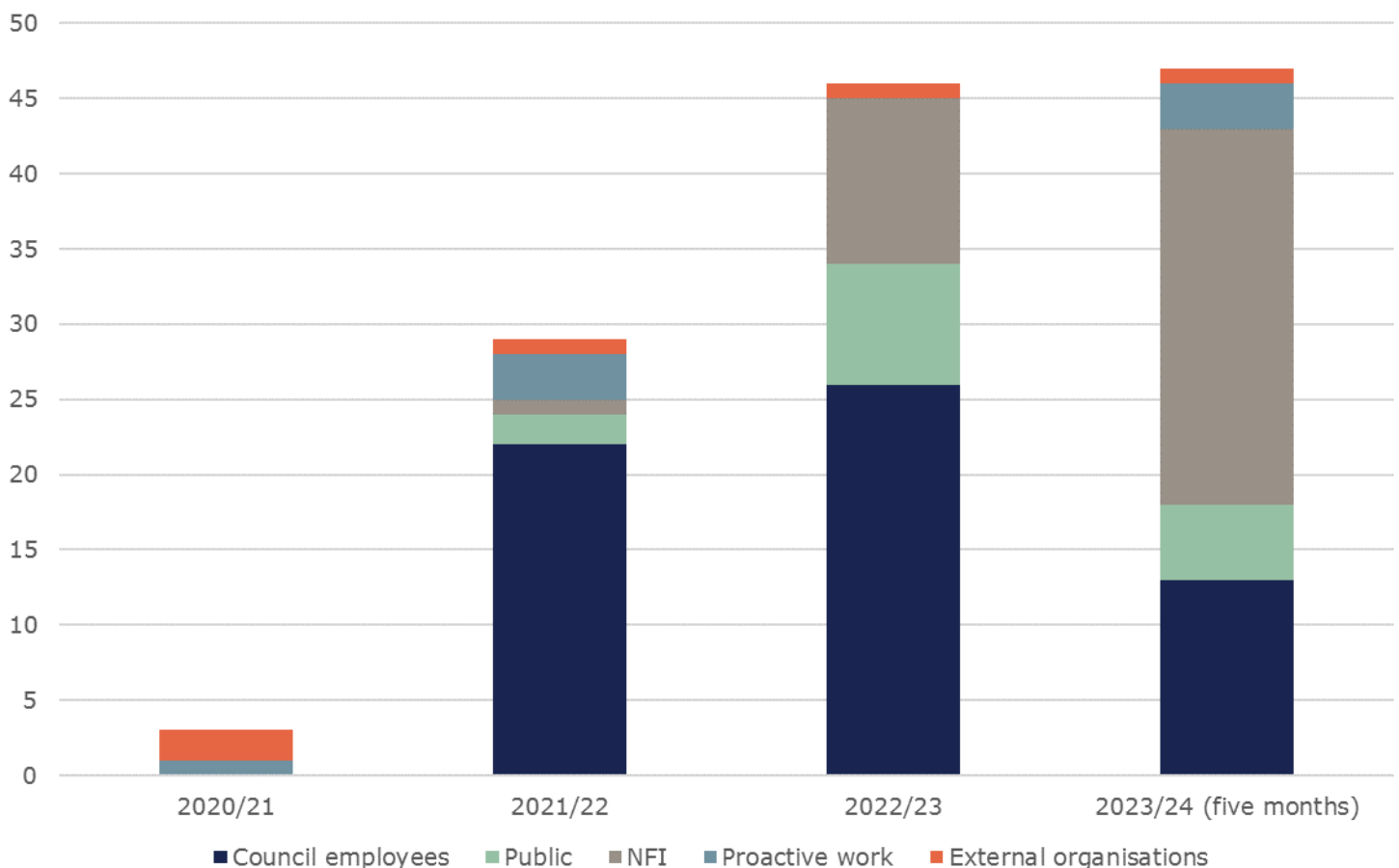
- 7 Following the Covid-19 pandemic, there has been an increased emphasis on managing fraud risks in government funded grant schemes. Local authorities must consider the local arrangements in place to mitigate and address fraud when disbursing central government funds through the creation of fraud management plans. Post assurance reviews and audits continue to provide opportunities to identify fraud and error.



## LOCAL PICTURE

- 8 Veritau began providing counter fraud services to the Council in January 2020. Raising awareness of fraud within the authority and with the public has been a key priority. This has resulted in year on year increases in the numbers of cases of suspected fraud being referred to the team. The chart below shows the number of referrals received by the team since 2020, and the source of the referrals.

**Fraud referrals by year and source**



<sup>4</sup> [Annual Report and Accounts 2021 to 2022](#), BEIS

- 9 Between 1 April and 31 August 2023 (five months), the team received almost as many referrals as the total received in the previous year. The number of referrals from Council officers and the public have also grown each year. The team is increasingly taking more responsibility for the investigation of data matches highlighted by the National Fraud Initiative.



## COUNTER FRAUD FRAMEWORK

- 10 The Council has a robust counter fraud framework which includes a counter fraud strategy and associated action plan, an anti-fraud and corruption policy, a fraud risk assessment, and a number of related policies (eg whistleblowing). A review of the framework is conducted annually.
- 11 The Council's current counter fraud and corruption strategy was adopted in 2020. The strategy sets out the Council's aims for counter fraud work up to 2024. The strategy also includes actions needed to maintain and develop counter fraud arrangements at the Council. The associated strategy action plan is reviewed and updated annually. This year's update is contained in annex A. It details progress made against last year's plan and introduces new priorities for the counter fraud team in 2023/24 taking into account local and national developments.

New objectives this year include:

- Presenting a new counter fraud strategy to the Corporate Affairs and Audit Committee in 2024
  - supporting the Council to meet central government requirements around grant provision
  - delivery of new whistleblowing e-learning packages to support employees and managers.
- 12 No policy updates were identified as part of the current review.



## FRAUD RISK ASSESSMENT

- 13 Veritau completes an annual Fraud Risk Assessment, designed to identify the areas of fraud that present the greatest risk to the Council. National and regional reports of fraud affecting local authorities, as well as fraud reported to and investigated by the counter fraud team, are used to develop the risk assessment. The results of the assessment are used to:
- develop or strengthen existing fraud prevention and detection measures
  - revise the counter fraud policy framework
  - focus future audit and counter fraud work.
- 14 The format of the risk assessment has been updated this year to show both the inherent and residual risks from fraud threats. Inherent risk

ratings show the risk to the Council if no controls to prevent fraud were in place. The residual risk rating indicates the potential risk level after current controls are taken into account.

- 15 By their nature, fraud risks are hard to quantify. For example, there are no established methodologies for determining estimated losses due to fraud in most areas. The terms high, medium, and low are therefore used in the risk assessment to provide a general indication of both the likelihood and impact of fraud in each area. However, we have intentionally avoided defining what high, medium, and low risk mean given the inherent uncertainty.
- 16 The risk assessment has been carried out by Veritau, based on our understanding of fraud risks in the sector and our knowledge of controls in place within the Council that prevent, identify and deter fraud. It is used to inform priorities for counter fraud and internal audit work by Veritau. However, it is separate from the wider Council risk management framework. We will be seeking to further develop the risk assessment in the coming year by working with officers responsible for management of risks in key areas.
- 17 Changes to the risk assessment this year include:
  - the removal of Covid-19 related fraud, following completion of the schemes and associated requirements for post payment assurance checks
  - the addition of grant schemes. Government departments are increasingly requesting that local authorities develop a fraud management plan for grant schemes they are asked to administer. The plans set out measures in place to prevent, detect, and investigate fraud. Failure to document and implement these measures could result in Council requests for grant funding being denied, loss of public funds if fraudulent applications succeed, and the potential for the Council to become liable for irrecoverable payments made incorrectly.
- 18 The updated risk assessment is contained in annex B, below.

## ANNEX A: COUNTER FRAUD STRATEGY ACTION PLAN

Veritau have responsibility for maintaining, reviewing, and strengthening counter fraud arrangements at the Council. This includes an annual review of the Council’s counter fraud strategy action plan.

Veritau also provide a number of other ongoing activities including:

- a rolling programme of fraud awareness training for officers based on priorities identified through the fraud risk assessment and any emerging issues
- annual campaigns to promote key issues, including cyber security, fraud awareness, whistleblowing, anti-bribery, and money laundering
- regular reporting of counter fraud activity to the Corporate Affairs & Audit Committee.

### New one off and developmental activity:

Ref	Action Required	Target Date	Responsibility	Notes
1	Present a new counter fraud strategy to the Corporate Affairs and Audit Committee.	March 2024	Veritau	The Council’s counter fraud strategy will require updating in 2024.
2	Review guidance issued by the Public Sector Fraud Authority (PSFA); identify recommended actions and implement as required.	March 2024	Veritau	The PSFA have and continue to publish guidance documents that will inform the Council’s new counter fraud strategy.
3	Support Council delivery of grant schemes.	September 2024	Veritau	Veritau will seek to identify relevant Council officers and offer guidance on counter fraud measures in relation to grant schemes.
4	Develop new whistleblowing e-learning courses for employees and managers.	June 2024	Veritau	New e-learning training packages will be more focussed on the Council’s whistleblowing policy. They will

Ref	Action Required	Target Date	Responsibility	Notes
				provide specific training for managers to ensure they know how to respond when whistleblowing concerns are raised.
5	Monitor progress of the Economic Crime and Corporate Transparency Bill	December 2024	Veritau	Updates to the counter fraud policy framework may be required to accommodate any new Council responsibilities under the legislation.

### Completed activities:

Ref	Action Required	Responsibility	Update
1	Increase responsibilities around the investigation of National Fraud Initiative data matching.	Veritau	The counter fraud team has begun investigating increasing numbers of data matches raised through the National Fraud Initiative.
2	Update the Council's Anti-Fraud, Bribery and Corruption Policy.	Veritau	An updated version of the policy was approved by the committee in September 2022.
3	Promote counter fraud reporting lines to members of the public and staff.	Veritau / Communications Team	The team publicised reporting lines throughout 2022/23 and have experienced an increased number of fraud referrals from council officers and members of the public.
4	Promote counter fraud work to more departments at the Council.	Veritau	The team has held discussions with Children's services and are arranging fraud awareness for officers.

## ANNEX B: Fraud Risk Assessment (October 2023)

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
Adult and Children's Social Care Fraud	<p>For adult social care, losses can occur through deprivation or non-declaration of capital which can involve the transfer or disguise of property in order to avoid paying for residential or domestic care provision. Residential homes could also continue to claim for customers who are no longer in residence (eg after they pass away).</p> <p>In both adult and children's social care, fraud can occur through the misuse of the Direct Payment scheme. For example, where monies allocated to meet a customer's assessed needs are not used to procure support services.</p> <p>In cases where fraud or error is identified, the average loss is £18k (based on the outcomes of investigations by the counter fraud team across multiple authorities). Losses in individual cases can be much</p>	<b>High</b>	<p>Applications for care funding are carefully assessed to ensure that recipients meet the eligibility criteria and that any financial contribution for care by the customer is correctly calculated.</p> <p>A range of monitoring and verification controls are operated by the Council. This includes requiring customers in receipt of Direct Payments to have a separate bank account for managing these funds and complying with monitoring procedures to verify spending. In instances of misused Direct Payments, customers are moved to a commissioned service.</p> <p>The residual risk of Adult and Children's Social Care fraud is still considered to be high. This is due to the scale of losses and the speed at which they can be accrued. It is also a reflection of the difficulty all</p>	<b>High</b>	<p>Veritau has established relationships with senior management and officers responsible for the provision of Adult Social Care; concerns of fraud are regularly reported to the counter fraud team (CFT) for investigation. Internal audit (IA) will periodically conduct audits in higher risk areas, eg Direct Payments.</p> <p>CFT will deliver a rolling programme of fraud awareness to employees with responsibilities for assessment and payments.</p> <p>Investigation of fraud in this area provides a deterrent to those considering committing it and can assist the Council to recover losses through the court system.</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
	higher, especially if they are not detected at an early stage.		councils have in detecting assets when people are determined to keep them hidden.		
Creditor Fraud	<p>Fraud against creditor payment systems has increased in terms of volume and sophistication over the past three years. The mandatory publication of payment data makes councils particularly vulnerable to attack. Attacks are often the work of organised criminal groups who operate from abroad. Individual losses due to fraud can be extremely large (in excess of £1 million). The likelihood of recovery is low once a fraud has been successfully committed.</p> <p>The most common issue is mandate fraud (payment diversion fraud) where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in bank details. Other types of fraud</p>	<b>High</b>	<p>The Council has put strong controls in place to identify fraudulent attempts to divert payments from genuine suppliers and to validate any requests to change supplier details.</p> <p>Segregation of duties exist between the ordering, invoicing and payments processes.</p> <p>The residual risk of creditor fraud is still considered to be high due to potentially high levels of loss and the frequency of attacks on public organisations.</p> <p>The Council's reliance on its own employees, and those of its suppliers, to follow processes, and the inevitable element of human error, are</p>	<b>High</b>	<p>Veritau will regularly provide support and advice to finance officers responsible for the payment of suppliers.</p> <p>The IA work programme includes audits of key financial systems and processes. This includes ordering and creditor payment processes, eg segregation of duties and controls to prevent mandate fraud. IA also undertake duplicate payment checks on a regular basis.</p> <p>The CFT has delivered fraud awareness training to relevant officers in the past. Increased awareness provides a greater chance to stop fraudulent attempts before losses occur.</p> <p>All instances of whaling fraud reported to CFT will be reported to the relevant agencies, such as the National Cyber Security</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 30</p>	<p>include whaling, where senior members of the Council are targeted and impersonated in order to obtain fraudulent payments.</p> <p>In recent years there have been increased instances nationally and regionally of hackers gaining direct access to email accounts of suppliers and using these to attempt to commit mandate fraud. These attempts can be much more difficult to detect and prevent.</p>		<p>factors in many successful mandate fraud attacks.</p>		<p>Centre, as well as directly to the email provider from which false emails originated.</p> <p>The CFT shares intelligence alerts relating to attempted fraud occurring nationally with relevant council officers to help prevent losses.</p> <p>As part of any investigation of attempted fraud in this area, the CFT will advise on improvements that will strengthen controls.</p>
<p>Cybercrime</p>	<p>Cybercrime is an evolving area where criminals are continually refining their techniques in order to overcome controls, obtain unauthorised access and information, and frustrate systems.</p> <p>As cybercrime can be perpetrated remotely, attacks can come from within the UK or overseas. Some cybercrime is motivated by profit, however some is designed purely to disrupt services.</p>	<b>High</b>	<p>The Council employs highly skilled ICT employees whose expertise is used to help mitigate the threat of cybercrime. The ICT department has processes to review threat levels and controls (eg password requirements for employees) on a routine basis.</p> <p>The ICT department uses filters to block communications from known fraudulent servers and will encourage employees to raise concerns about any</p>	<b>High</b>	<p>IA routinely include ICT audits in the annual work programme. Cybersecurity is an ongoing priority for IA work.</p> <p>Raising awareness with employees can be crucial in helping to prevent successful cyberattacks. The CFT works with ICT to support activities on raising awareness. A campaign to mark cybersecurity awareness month is undertaken annually.</p> <p>ICT can access free resources from the National Cyber Security</p>



Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
<p style="text-align: center;">Page 81</p>	<p>Types of cybercrime experienced by local authorities include ransomware, phishing, whaling, hacking, and denial of service attacks. Attacks can lead to loss of funds or systems access/data which could impact service delivery to residents.</p> <p>There have been a number of high-profile cyber-attacks on public and private sector organisations in recent years. Attacks stemming from the hacking of software or ICT service providers have become more prevalent. These are known as supply chain attacks and are used by hackers to target the end users of the software created by the organisations targeted.</p>		<p>communications they do receive that may be part of an attempt to circumvent cybersecurity controls. Despite strong controls being in place, cybercrime remains a high residual risk for the Council. The potential for cybercrime is heightened by the availability of online tools. The National Crime Agency report that cybercrime can now be committed by less technically proficient criminals.</p> <p>Human error was found to be a factor in 82% of cyber breaches according to a recent study<sup>5</sup>. Council systems could be exposed by as yet unknown weaknesses in software. Suppliers of software or IT services could also be compromised which may allow criminals access to council systems believed to be secure.</p> <p>The residual risk of cybercrime remains high due to the</p>		<p>Centre to help develop and maintain their cyber defence strategy.</p>

<sup>5</sup> [2022 Data Breach Investigations Report](#), Verizon

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
			constantly evolving methods employed by fraudsters which requires regular review of controls.		
<p>Council Tax &amp; Business Rates Frauds (discounts and exemptions)</p> <p>Page 82</p>	<p>Council Tax discount fraud is a common occurrence. CIFAS conducted a survey in 2022 in which 10% of UK adults said they knew someone who had recently committed single person discount fraud. In addition, 8% of people thought falsely claiming a single person discount was a reasonable thing to do. Individual cases of fraud in this area are of relatively low value but cumulatively can represent a large loss to the Council.</p> <p>Business Rates fraud can also involve falsely claiming discounts that a business is not entitled to, eg small business rate relief. Business Rate fraud is less prevalent than Council Tax fraud but can lead to higher losses in individual cases.</p>	<b>High</b>	<p>The Council employs a number of methods to help ensure only valid applications are accepted. This includes requiring relevant information be provided on application forms, and visits to properties are undertaken where needed, to verify information.</p> <p>The Council will routinely take part in the National Fraud Initiative (NFI). The exercise allows councils to cross check for potential instances of fraud in multiple locations (eg multiple claims for single person discount by one individual).</p>	<b>Medium</b>	<p>CFT delivers fraud awareness training to employees in revenues and customer services teams about frauds affecting Council Tax and Business Rates.</p> <p>IA routinely review the administration of Council Tax and Business Rates as one of the Council's key financial systems.</p> <p>CFT provide a deterrent to fraud in this area through the investigation of potential offences which can, in serious cases, lead to prosecution. CFT will also seek opportunities to raise awareness with the public about mechanisms for reporting fraud.</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
Council Tax Reduction Fraud	<p>Council Tax Reduction (CTR) is a council funded reduction in liability for Council Tax. It is resourced through council funds. Fraud and error in this area is of relatively low value on a case-by-case basis but cumulatively fraud in this area could amount to a substantial loss.</p> <p>CTR fraud can involve applicants failing to declare their total assets or income. Those receiving support are also required to notify relevant authorities when they have a change in circumstances that may affect their entitlement to support.</p> <p>Most CTR claims are linked to state benefits (eg Universal Credit) which are administered by the Department for Work and Pensions (DWP). The Council has limited influence on DWP decision-making, meaning it is harder to address fraud in this area.</p>	<b>High</b>	<p>The Council undertakes eligibility checks on those who apply for support. Officers manage the assessment of new and ongoing claims for CTR to identify potential issues.</p> <p>The Council will routinely take part in the National Fraud Initiative (NFI) which highlights potentially fraudulent claims.</p> <p>The DWP use data from HMRC on claimants' incomes which is then passed through to council systems. This mitigates the risk of claimants not updating the Council with income details.</p> <p>There are established lines of communication with the DWP where claims for support are linked to externally funded benefits.</p> <p>The Council reports suspected fraud to the DWP, but this does not always give the</p>	<b>Medium</b>	<p>The CFT raise awareness of fraud with teams involved in processing claims for CTR.</p> <p>The CFT provide a deterrent to fraud in this area through the investigation of potential fraud which can, in serious cases, lead to prosecution.</p> <p>Concerns of fraud can be reported to CFT by employees. CFT will also seek opportunities to raise awareness with the public about mechanisms for reporting fraud.</p> <p>If fraud cannot be addressed by the Council directly it will be reported to the DWP.</p> <p>CFT engage with the DWP at a senior level to foster joint working wherever possible.</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
			Council control over resolving false claims for CTR.		
Procurement Fraud	<p>Procurement fraud, by its nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. The Competition and Markets Authority (CMA) estimates that having a cartel within a supply chain can raise prices by 30% or more.</p> <p>In 2020 CIPFA reported losses of £1.5m for local authorities, due to procurement fraud. It found that 8% of fraud detected in this area involved 'insider fraud'.</p>	<b>High</b>	<p>The Council has established Contract Procedure Rules. The rules are reviewed regularly and ensure the requirement for a competitive process (where required) through an e-tender system. A team of procurement professionals provide guidance and advice to ensure procurement processes are carried out correctly.</p> <p>The Middlesbrough Manager Framework includes contract management expectations for managers. The Contract Procedure Rules also set out the requirements for declarations of interest to be made.</p> <p>Contract monitoring helps to detect and deter potential fraud.</p>	<b>Medium</b>	<p>Continued vigilance by relevant employees is key to identifying and tackling procurement fraud.</p> <p>CFT and IA monitor and share guidance on fraud detection issued by the Competition and Markets Authority and other relevant bodies.</p> <p>IA regularly undertake procurement related work to help ensure processes are effective and being followed correctly.</p>
Theft of Assets	The theft of assets can cause financial loss and reputational damage. It can also negatively	<b>High</b>	Specific registers of physical assets (eg capital items,	<b>Medium</b>	Thefts are reported to the police and Veritau. Instances of theft

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
Page 95	<p>impact on employee morale and disrupt the delivery of services. The Council own a large amount of portable, desirable physical assets such as ICT equipment, vehicles and tools that are at higher risk of theft.</p>		<p>property, and ICT equipment) are maintained.</p> <p>The Council operates CCTV systems covering key premises and locations where high value items are stored.</p> <p>Entrance to council buildings is regulated and controlled via different access methods. The Council's whistleblowing arrangements provide an outlet for reporting concerns of theft.</p>		<p>are investigated by CFT where appropriate.</p>
Internal Fraud	<p>Fraud committed by employees is a risk to all organisations. Internal fraud within councils occurs infrequently and usually results in low levels of loss. However, if fraud or corruption occurs at a senior level there is the potential for a greater level of financial loss and reputational damage to the Council.</p> <p>There are a range of potential employee frauds including</p>	<b>Medium</b>	<p>The Council has up to date whistleblowing and anti-bribery policies. Campaigns are held annually to promote the policies and to remind employees how to report any concerns.</p> <p>The Council has checks and balances to prevent individual employees being able to circumvent financial controls, eg segregation of duties.</p>	<b>Medium</b>	<p>Veritau liaises with senior management on internal fraud issues. Where internal fraud arises, IA and CFT will review the circumstances to determine if there are underlying control weaknesses that can be addressed.</p> <p>CFT provide training to HR officers on internal fraud and whistleblowing issues.</p> <p>CFT investigate any suspicions of fraud or corruption. Serious</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
Page 86	<p>theft, corruption, falsifying timesheets and expense claims, abusing flexitime or annual leave systems, undertaking alternative work while sick, or working for a third party on council time. Some employees have access to equipment and material that may be misused for private purposes.</p> <p>Payroll related fraud can involve the setting up of 'ghost' employees in order to obtain salary payments.</p>		<p>Controls are in place surrounding flexitime, annual leave and sickness absence.</p> <p>The Council regularly participates in the National Fraud Initiative. Data matches include checks on payroll records for potential issues.</p>		<p>cases of fraud will be reported to the police. In some instances, it may be necessary to report individuals to their professional bodies.</p> <p>CFT support any disciplinary action taken by the Council relating to internal fraud issues.</p>
Recruitment Fraud	<p>Recruitment fraud can affect all organisations. Applicants can provide false or misleading information in order to gain employment such as bogus employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.</p> <p>There is danger for the Council if recruitment fraud leads to the wrong people occupying</p>	<b>Medium</b>	<p>The Council has controls in place to mitigate the risk of fraud in this area. DBS checks are undertaken where necessary.</p> <p>Additional checks are made on applications for roles involving children and vulnerable adults.</p> <p>References are taken from previous employers and there are processes to ensure</p>	<b>Medium</b>	<p>Where there is a suspicion that someone has provided false information to gain employment, CFT will be consulted on possible criminal action in tandem with any disciplinary action that may be taken.</p> <p>Applicants making false claims about their right to work in the UK or holding professional accreditations will be reported to the relevant agency or</p>

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
	positions of trust and responsibility, or not having the appropriate professional accreditation for their post.		qualifications provided are genuine.		professional body, where appropriate.
Treasury Management	Treasury Management involves the management and safeguarding of the Council's cash flow, its banking, and money market and capital market transactions. The impact of fraud in this area could be significant.	<b>Medium</b>	Treasury Management systems are subject to a range of internal controls, legislation, and codes of practice which protect council funds.  Only pre-approved employees can undertake transactions in this area and they work within pre-set limits.	<b>Low</b>	IA conduct periodic work in this area to ensure controls are strong and fit for purpose.
Fraudulent Insurance Claims	The Council may receive exaggerated or fabricated insurance claims. If false claims progress unchecked this would negatively affect the Council in terms of the annual premiums it pays.	<b>Medium</b>	While insurance fraud is common, the burden of risk is largely shouldered by the Council's insurers who have established fraud investigation systems.	<b>Low</b>	CFT are exploring any support that can be provided to the insurance team to complement established arrangements.
Grant schemes	The Council takes on the responsibility for disbursing government funded grant schemes to local residents, businesses, and other organisations.	<b>Medium</b>	The Council will complete any required fraud management plan which will consider fraud risks, and mechanisms for preventing and detecting fraud.	<b>Low</b>	CFT and IA will support the development of fraud management plans, and associated controls, where required.

Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
Page 88	<p>Fraud in this area can include applicants supplying incorrect information to obtain grant payments or grant funded works (for example where grant funds are paid to a third party supplier). Suppliers undertaking work may overcharge or not complete work to agreed standards.</p> <p>The Council can become liable for recovery of any incorrectly paid government funding. This can create a loss to the Council and may affect access to future grant schemes.</p>		<p>When awarding payments or agreeing works, the Council (or their contractor) will complete checks to confirm applicants' eligibility.</p>		<p>CFT can undertake investigation in cases of suspected fraud.</p>
Blue Badge & Parking Fraud	<p>Blue Badge fraud carries low financial risk to the authority but can affect the quality of life for disabled residents and visitors. There is a risk of reputational damage to the Council if abuse of this scheme is not addressed.</p> <p>Other low level parking fraud is relatively common, for example, misuse of residential</p>	<b>Low</b>	<p>Measures are in place to control the issuing of blue badges, to ensure that only eligible applicants receive badges.</p> <p>The Council participates in the National Fraud Initiative which flags badges issued to deceased users, and badge holders who have obtained a blue badge from more than</p>	<b>Low</b>	<p>CFT undertake periodic proactive days of action with the Council's enforcement team. This helps raise awareness and act as a deterrent to blue badge misuse.</p> <p>Warnings will be issued to people who misuse parking permits and blue badges. Serious cases will be considered for prosecution.</p>



Risk Area	Risk Description	Inherent Risk	Risk Controls	Residual Risk	Priorities for IA / CFT
	permits to avoid commercial parking charges.		one authority, enabling their recovery to prevent misuse.		

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