

AUDIT COMMITTEE

Date: Thursday 14th December, 2023
Time: 2.00 pm
Venue: Mandela Room

AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
To receive any declarations of interest.
4. Minutes- Audit Committee - 6 October 2023 3 - 10
5. Corporate Governance Improvement and Section 24 progress report 11 - 24
6. Internal Audit and Counter Fraud Progress Reports 25 - 74
7. Annual Assurance Report on Partnership Governance 75 - 80
8. Annual Assurance Report on Procurement Activity 81 - 118
9. Audit Planning Report for the 2022/2023 Teesside Pension Fund Audit 119 - 152
10. Any other urgent items which in the opinion of the Chair, may be considered.

Charlotte Benjamin
Director of Legal and Governance Services

Town Hall
Middlesbrough
Wednesday 6 December 2023

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

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Friday 6 October 2023.

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

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

OFFICERS: C Benjamin, A Johnstone, S Lightwing and J Weston

APOLOGIES FOR ABSENCE: All Committee Members were present.

23/1 **DECLARATIONS OF INTEREST**

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

23/2 **MINUTES- CORPORATE AFFAIRS AND AUDIT COMMITTEE - 15 AUGUST 2023**

The minutes of the Corporate Affairs and Audit meeting held on 15 August 2023 were submitted and approved as a correct record.

23/3 **SECTION 24 REPORT - DELIVERY AND OVERSIGHT ARRANGEMENTS**

A joint report of the Chief Executive, Director of Finance and Director of Legal and Governance Services was presented to provide the Committee with information in relation to 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.

The agreed recommendations and supporting action plan that was agreed by Council on 18 September 2023 was attached at Appendix 1 to the submitted report.

Progress against the action plan would be reported to the Audit Committee as a standing item until delivery of all actions was complete. Progress would also be reported to the Independent Improvement Advisory Board (IIAB) that had 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.

The Chair of the IIAB and the Council's three statutory officers would 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 would be reported as a standing item to each ordinary meeting of full Council to maintain Member visibility.

Since the report was approved by Council on 18 September 2023, two actions had been completed in line with their target dates as follows:

1. A review of all existing purchasing cards had been completed. A process was in place for reducing the number of cards across the business and mandatory training had been developed for cardholders identified moving forward. Training for the initial cohort would be complete by November 2023 and then there would be a rolling programme of training aligned with the assignment of cards going forward.

2. Pre-2021 'open' exemptions had been identified and a full analysis of would be reported to the Audit Committee in December within the annual assurance report on Procurement activity.

The first meeting of the Independent Improvement Advisory Board (IIAB) had taken place on 2 October 2023 and another meeting was scheduled for November. It was confirmed that a note of actions points had been made rather than recorded minutes. This point was queried by Members as it had been stated at a recent Council meeting that minutes would be kept of IIAB meetings. The Monitoring Officer confirmed the question had been raised at Council and agreed that this position would be corrected.

The first meeting had set the scene for the IIAB to understand Middlesbrough Council and discussion had also taken place regarding engagement with Members. An informal two-way conversation with Members was envisaged as well as the formal process, and this was high up on the IIAB's agenda.

The IIAB had been created by the Head of Paid Service following discussions with the Department for Levelling Up, Housing and Communities (DLUHC) and the External Auditor, EY, and was required as part of the Council's improvement journey. The appointments were made by the Head of Paid Service, with the costs approved by Council.

It was noted that approximately £750,000 was spent per month on purchasing cards and as part of a review the number of cards in use had been reduced and more transactions were now going through the purchasing system. The Head of Procurement would be presenting a report to the next Audit Committee meeting which would provide further detail on the review. It was highlighted that use of purchasing cards had been reviewed previously, and it was explained that given the Council's current financial position, spending had to be restricted. In some cases VAT on transactions had not been recouped.

It was clarified that the mandatory Elearning would be delivered initially and then on a cyclical basis to ensure that new employees would be included.

The target dates for action in the report would have a detailed delivery plan and timeline and the Audit Committee would receive regular updates.

Regarding Middlesbrough Development Company (MDC), the Chair requested that the audited accounts, when prepared, were submitted to the Audit Committee for information. It was confirmed there were currently two Board Members and the Liquidators would appoint any further Board Members required as part of the Company wind-up process.

AGREED as follows that the:

1. information provided was received and noted.
2. proposed monitoring arrangements were approved.
3. audited accounts for Middlesbrough Development Company (MDC) would be submitted to the Audit Committee for information when available.
4. Monitoring Officer would ascertain the minuting arrangements in relation to IIAB meetings and the process for the appointment of its Members.

23/4

UPDATE ON AUDIT OF ACCOUNTS PROGRESS

A report of the Interim Director of Finance (Section 151 Officer) was presented to update the Audit Committee on the audit of the Council's Statement of Accounts and provide new information on action proposed by the Department for Levelling Up Homes and Communities (DLUHC) to address the current audit backlog.

The report provided 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 had yet to be finalised for publication although the statutory date for doing this was 31 May 2023. There was 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.

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:

- For 2019/20, this was completed on 2 March 2021 (the statutory date for these audited accounts was 30 November 2020).
- 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.

Reasons for the delays had been reported to the Corporate Affairs and Audit Committee several times before and were grouped into three main categories:

1. Onerous regulatory requirements for external auditors, mainly from the National Audit Office and the Financial Reporting Council. This had 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 had been in response to a high number of corporate failures in the private sector.
2. A significant amount of additional work had 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 had recently led to a set of statutory recommendations 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.

In addition, there had been resource constraints and recruitment issues within both the Council's financial team and for Ernst & Young (EY), the external auditors, over most of this period. The Head of Finance and Investment confirmed that the Council had brought in additional resources to assist with completion of the accounts and provide better resilience.

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 May date. There was no penalty for failing to meet the statutory deadlines. However, it was important for local authorities and their stakeholders to have assurance of the Council's financial position and therefore timely reporting and audit was an essential aspect of robust financial management.

The percentage of Councils that met the deadlines in 2021/22 was 9% of English local authorities for the draft accounts and for the audited accounts was 12%.

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

The National Audit Office (NAO) and DLUHC intended 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. Achieving these deadlines, might result in qualifications and disclaimers of opinions on statutory accounts in the short term for a number of local bodies. The NAO was considering whether to develop a revised Code of Audit Practice to give effect to the changes. Legislative change might also be needed to address any knock-on effects of the proposals which might impact the audit of opening balances within the accounts for future years. Under these proposals, Section 151 officers would 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.

The External Auditor commented that in terms of the Government consultation, audit firms were awaiting further guidance. EY were working through the implications of the current proposals. The purpose of the proposals was to try and get the 2023/2024 accounts back onto a reasonable timetable. The deadlines did not apply to Pension Fund audits and they would go ahead through to completion.

The draft Statement of Accounts for 2021/22 was authorised for issue by the former Director of Finance on 8 August 2022. EY had 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.

One area that EY had been working on related to the Collection Fund Bad Debt provision. The debt on both council tax and business rates was around £50m in total, so any judgement on the level of bad debt provision was 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.

Given recent changes in relation to IAS 37 on provisions and contingent liabilities, the accounting standard that informed 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 were in discussion with the external auditor in relation to this change which could result in a material adjustment to the 2021/22 accounts and would need to be fed through the 2022/23 draft accounts.

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 had decided that the 2022/23 accounts would be published once the adjustment had been determined to enable her to be satisfied that the accounts presented a true and fair view of the Council's financial position at 31 March 2023. It was anticipated that the 2022/23 draft pre-audited accounts would be signed and issued before the end of this calendar year to enable the audit to commence subject to EY's planned approach. The accounts would be brought to the Audit Committee for consideration at the earliest opportunity thereafter.

A Member commented that the Council had recently been criticised in the press regarding the outstanding accounts but noted that Middlesbrough was different to other local authorities due to the current governance issues and government intervention. The Head of Finance and Investment confirmed that there were some issues in the earlier years' accounts that could impact the starting point for the 2022/2023 accounts and therefore needed to be resolved.

AGREED that the information provided was received and noted.

23/5

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Head of Internal Audit, Veritau, presented a report to provide the Audit Committee 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 Committee.

The internal audit progress report was contained at Appendix 1 to the submitted report. This included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

Good progress had been made since the last update. Seven reports had been finalised and 3 reports were in draft. One of the 3 draft reports – Homecare - had been finalised since this report was written.

The final report on Middlesbrough Development Company was reported to the August meeting of the Corporate Affairs and Audit Committee. Five of the final reports provided substantial or reasonable assurance. The opinion on the Children's Commissioning and Contract Management audit was limited and actions had been agreed with target dates. The actions would be followed up to ensure they had been completed.

Annex E to the submitted report provided details of the follow up of agreed actions and one action has been completed since the last report to Committee. This was a priority 3 action relating to the audit of the main accounting system. A total of 18 actions with original due dates that had passed were still outstanding. Of those 18, 15 had revised target dates agreed and the remaining 3 were being followed up.

Members asked questions in relation to the prioritisation of audits, the length of time taken to

complete and overdue actions. The purpose of Internal Audit was to help the Council and its managers to mitigate and manage risk. Internal Audit focussed on areas that would be of most benefit to the Council and likely to be the most risky.

The counter fraud progress report was contained at Appendix 2 to the submitted report. A range of work was detailed including activity to promote awareness of fraud, work with external agencies, and information on the level of fraud reported to date.

Veritau had worked with Human Resources to update the Council's Whistleblowing Policy. The updated policy was finalised in June 2023 and reflected national guidance and best practice as well as detailed guidance for managers on how to address whistleblowing concerns. A central log of whistleblowing reports was 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.

Middlesbrough had 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 (PCN) being issued. Nationally 5000 badges were inspected, 196 PCNs were issued, and 92 badges were seized.

Between 1 April and 31 August 2023, the counter fraud team received 47 referrals of suspected fraud. These covered potential council tax fraud, council tax reduction fraud, internal fraud and debt recovery issues. Referrals had been made by members of staff, the NFI, and the public. Ten investigations had been completed this year and there were currently 24 cases under investigation.

Investigative work in 2023/24 had identified £33k of loss to the Council to date. The counter fraud team supported the Council to recover debts identified as part of investigations. Counter fraud savings were also tracked by monitoring repayments to the Council and calculating the value of stopping ongoing fraud. To date £11k of counter fraud savings had been generated. Internal Audit tried to get best value for the Council by prioritising high value frauds to investigate. Amounts recovered would continue to be collected, sometimes through repayment plans that could take a number of years, or potentially from a person's assets.

AGREED that the information provided was received and noted.

23/6

COUNTER FRAUD FRAMEWORK ANNUAL REPORT

A report of the Head of Internal Audit, Veritau, was presented 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.

Fraud was 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. At a local level, fraud could impact a council's ability to support public services and cause reputational damage. To effectively combat fraud councils should have a counter fraud framework that helped to prevent, detect and deter fraud.

Covid-19 payments to businesses and the public concluded last year. Councils across the country had been working with the former Department for Business, Energy and Industrial Strategy (BEIS) to complete reconciliation and assurance exercises. BEIS estimated that 8.4% of payments (£985m nationally) was lost to fraud from the initial Covid-19 schemes at the start of the pandemic. Later schemes lost 1% (£83m) of payments due to fraud. Councils and central government were currently working together to recover money lost due to fraud through Covid-19 grant schemes.

The Government had reacted to those losses and set up a public sector fraud authority to give advice and improve the fraud mechanisms in Government. New legislation, which might affect public sector organisations, was being introduced to criminalise larger organisations who failed to prevent fraud from occurring. The Bill was currently going through Parliament and the Committee would be kept updated on progress.

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

Between 1 April and 31 August 2023 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 had also grown each year. The team was increasingly taking more responsibility for the investigation of data matches highlighted by the National Fraud Initiative.

The Council's current counter fraud and corruption strategy was adopted in 2020. The strategy set out the Council's aims for counter fraud work up to 2024. The strategy also included actions needed to maintain and develop counter fraud arrangements at the Council. The associated strategy action plan was reviewed and updated annually. This year's update was contained in Annex A to the submitted report and detailed progress made against last year's plan and introduced new priorities for the counter fraud team in 2023/24 taking into account local and national developments.

New objectives this year included:

- Presenting a new counter fraud strategy to the 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.

No policy updates were identified as part of the current review.

Veritau completed an annual Fraud Risk Assessment, designed to identify the areas of fraud that presented 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, were used to develop the risk assessment. The updated risk assessment was attached at Annex B to the submitted report.

A Member noted that in 2021 there were 29 fraud referrals and asked how many converted into fraud or error being found. The Auditor stated that each case was different but it was generally 50%. When fraud was uncovered the subject would be invited for an interview under caution. Sometimes it may just have been a mistake or equally it could be an attempt to defraud the Council. Once all the facts were known they would be assessed and actions recommended to the Council. Actions could include a warning, fine or prosecution which would be publicised to try and deter people. Details of a prosecution that the Council was undertaking would be shared with the Audit Committee at the appropriate time.

The National Fraud Initiative (NFI) was a large-scale data matching exercise that involved all councils and other public sector bodies in the UK. This exercise was completed every two years.

AGREED that the updated Counter Fraud Strategy Action Plan and the Fraud Risk Assessment were received and noted by the Audit Committee.

23/7

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

The Chair suggested that the Audit Committee might need to meet more frequently in future to meet an increased workload which included the Section 24 Report updates, outstanding accounts and completed audits. The Democratic Services Officer would circulate a provisional date for a meeting in November 2023.

AGREED that a provisional date would be circulated for a meeting of the Audit Committee in November 2023.

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MIDDLESBROUGH COUNCIL	
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Report of:	The Chief Executive, Director of Finance and Director of Legal and Governance Services
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Relevant Executive Member:	Elected Mayor of Middlesbrough, Chris Cooke
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Submitted to:	Audit Committee
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Date:	14 December 2023
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Title:	Corporate Governance Improvement and Section 24: progress report
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	No
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Why:	Not applicable
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Exempt from call in?:	Not applicable
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Why:	This is not an Executive report
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Proposed decision(s)

Executive summary
<p>This report sets out the key activities and progress since last reported to Audit Committee on the Corporate Governance Improvement Plan and activity in response to the Section 24 recommendations made by the Council’s External Auditors. This detail was also recently presented to all councillors at Council on 29 November 2023.</p>

Alongside the activity that has been delivered, the report also sets out the impact actions have had on the measures of success that have been identified within the Corporate Governance Improvement Plan.

The report sets out a baseline of measures of success to be used to assess the impact of the Section 24 actions and gives an overview of planned next steps.

Purpose

1. This report sets out the key activities and progress since an update was last provided. The report also provides an update on activity in response to the Section 24 recommendations made by the Council’s External Auditors.
2. Alongside the activity that has been delivered, the report also sets out the impact actions have had on the measures of success that have been identified within the Corporate Governance Improvement Plan. Furthermore, the report sets out a baseline of measures of success to be used to assess the impact of the Section 24 actions.

Recommendations

3. That the committee notes the progress made in relation to the Corporate Governance Improvement Plan and the Section 24 action plan and the planned next steps.

Rationale for the recommended decision(s)

4. The Council must respond effectively and at pace to the deliver the improvements set out in both the Corporate Governance Improvement Plan and the Section 24 report if it is to effectively address the concerns around its culture, governance and financial challenges.
5. 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.

Background and relevant information

6. On 18 September 2023, Council received a report that set out the activities of Phase Three of the Council’s Corporate Governance Improvement Plan, alongside the governance arrangements to oversee delivery of this plan.
7. The activities in the improvement plan comprise ten workstreams, each with a milestone delivery plan which is monitored and reported monthly to the Leadership Team, the Independent Improvement Advisory Board and at each full Council and Audit Committee meeting.

Corporate Governance Improvement Plan: progress

- 8. For the current reporting period, six of the workstreams are on target in terms of activity, as per timescales set out in the corporate Governance Improvement Plan, with four are off target.

People Strategy

- 9. There was a slight delay in presentation of the strategy to Constitution and Member Committee, which has had a knock-on effect to resulting implementation milestones, however the target date for completion of implementation remains unchanged.

Ensuring stable and sustainable leadership for the organisation

- 10. Milestones to commence and deliver a review have been delayed by a month to seek further data to inform proposals. The target date for completion of implementation remains unchanged.

Development and implementation of an improved focus on employee performance and accountability

- 11. Milestones to launch the new appraisal system have slipped by a month. The target date for completion of implementation remains unchanged.

Setting a balanced budget for 2024/25 to 2026/27

- 12. Activity within this workstream have slipped in relation to the commencement of transformation and service redesign development proposals. This work has now commenced and will be supported by external consultants over the period to mid-February in order to develop robust proposals that will contribute towards balancing the budget in 2024/25 and over the medium term. The table below sets out the current status of activity. Future reports will include information on impact it is having on measures of success (where data has been refreshed) along with a further section, currently being developed which will set targets for each indicator in order to identify if further action is required to impact positively on the measures of success within the plan.

Theme	Cultural Transformation	Activity RAG	Prev Activity RAG	Trend	Portfolio Lead	LMT lead
	Development and implementation of a People Strategy	Red	Green	↓	N Walker	C Benjamin
	Development and implementation of a Member Development Strategy and Programme	Green	Green	↔	N Walker	C Benjamin
	Development and implementation of a corporate governance training programme	Green	Green	↔	N Walker	C Benjamin
	Ensure stable and sustainable leadership for the organisation	Red	Green	↓	C Cooke	C Heaphy
	Development and implementation of an improved focus on employee performance and accountability	Red	Green	↓	N Walker	C Heaphy
	Review the Council's approach to Member enquiries and engagement	Green	Green	↔	N Walker	C Benjamin
	Develop and implement communications and engagement plan to support cultural transformation	Green	Green	↔	C Cooke	C Heaphy
Theme	Financial Recovery and Resilience	Activity RAG	Prev Activity RAG	Trend	Portfolio Lead	LMT lead
	Controlling 2023/24 expenditure to within approved budgets	Green	Green	↔	N Walker	D Middleton
	Setting a balanced budget for 2024/25 to 2026/27	Red	Green	↓	N Walker	D Middleton
	Improvements to financial governance, spending controls and monitoring through more effective financial management, across the organisation	Green	Green	↔	N Walker	D Middleton

Measures of success

13. The Council, in identifying the data sources to measure success, has set a baseline against which it will judge ongoing performance. Frequencies in updating these measures vary and are detailed in Appendix 1.

14. Seven measures of success have seen positive movement, since initial baselining:

- The budget position has improved from a pressure of £11.562m overspend at Quarter One, to an predicted overspend of £8.556m at Quarter Two
- The staff turnover rate has reduced from 6.22% in September 2023 to 5.64% in October 2023.
- The total number of agency staff has reduced from 126 to 102, driven mainly by a reduction in the use of agency staff within Children’s services.
- Number of roles held at Head of Service and above that are vacant / occupied by an agency or interim appointment reduced by one between September and October 2023, from eight to seven.
- Number of complaints: reduced from 211 to 164. To note, the previous month’s performance included a spike in complaints, following service issues that interrupted bin collections.
- LMT, WLMT and all budget holders involved in Purchase to Pay to receive training: increased from 69.71% to 70.30%.
- The number of complaints upheld by the Central Team: reduced from 111 to 78.

15. One measure of success worsened slightly, since first baselined:

- How valued staff feel as an employee of the Council: scores dropped from 6.22 out of 10 (November 2022) to 5.9 (August 2023) when the staff survey was last conducted.

16. At the December meeting of the Independent Improvement Advisory Board it was agreed that the Council would develop a set of targets for the measures of success going forward to assess not only direction of travel but to also set out the goals for each measure of success across both the Corporate Governance Improvement Plan and the Section 24 Measures of Success. Information on these will be included in future reporting.

Key activities

17. The following activities within the governance improvement plan have been delivered since progress was last reported to Council, in-line with planned timescales:

Theme	Workstream	Completed activities in this reporting period
Cultural Transformation	Development and Implementation of a People Strategy	Draft strategy was presented to Leadership Management Team.
	Development / implementation of a Member Development Strategy and Programme	A draft Member Development Strategy has been consulted on during October 2023 and formally presented to Constitution and Member Development Committee.

	Development and implementation of a corporate governance programme	The programme was launched on 1 November by the Chief Executive, Director of Finance and the Director of Legal and Governance Services.
	Development and implementation of an improved focus on employee performance and accountability	While there has been some slippage in the finalisation of the programme content, background work to manage the process once it goes live has been completed in the Council's HR system.
	Review the Council's approach to Member enquiries and engagement	All member sessions have been held to understand immediate issues and longer-term requirements for a revised process. Sessions have also been held with staff on the same topic. The outputs from that session have been reviewed and support guidance and templates developed for service staff to improve quality of responses.
	Develop and implement communications and engagement plan to support cultural transformation	A plan was developed and put in place during October which will be delivered alongside the activity set out in the improvement plan.
Financial Recovery and Resilience	Setting a balanced budget for 2024/25 to 2026/27	An initial scoping exercise for an asset review has been completed and presented to Executive in November 2023.

Changes to delivery dates

- 18. Detailed delivery milestone plans have been developed to underpin the workstream activities within the improvement plan.
- 19. Where slippage occurs to individual milestones but the overarching end date for the workstream activity is not impacted, no escalation or change control will be required and it can be assumed that any required mitigated will be put in play at an operational level. Where there is impact on achieving the intended measure of success or overarching end date of workstream activity, a change control will be proposed for noting.
- 20. On that basis and for this reporting period, there are no change controls presented.

Independent Improvement Advisory Board

- 21. Since the past report, the Board has met formally on 7 November 2023 and 1 December 2023 and has twice met informally. The board received further information at these meetings on delivery of the Council's Corporate Governance improvement plan at the formal meeting and considered the draft People strategy. Elements of both the informal and formal meetings have involved the whole Leadership Management Team of the organisation as well as the Executive.
- 22. The key focus of these meetings has been on the activity the Council is taking to address its in-year budget pressures and the steps it is taking to develop, at pace, savings proposals and the transformative plans that need to be in place to ensure a balanced budget can be set for 2024/25.
- 23. The Board held a briefing for all members on 1 December 2023, setting out their areas of focus to date, which will be reflected in its first report, due to be considered by Executive on 17 January 2024.

Section 24: progress update

24. The table below sets out the current status of activity in response to the Section 24 recommendations, again, future reports will set out impact in the same table going forward on success measures alongside targets:

S24 recommendations	Activity RAG	Prev Activity RAG	Trend
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.			↔
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.			↓
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.			↔
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.			↔
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.			↓
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.			↔
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.			↔
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.			↔
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.			↔
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.			↔
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.			↑

25. The reasons why the three S24 workstreams that report activity off target, set out below with proposed amends at paragraph 22:

- Recommendation 2, Contingency and succession planning: milestones relating to senior management review show slight slippage but no impact on overall end date.
- Recommendation 5, Work to commence activity in relation to planned transformation and reviews of delivery models: initially delayed, though now commenced with external expertise to support the development of robust quantified proposals by mid-February to contribute towards achieving a balanced budget by 28 February 2024 and over the medium term.

- Recommendation 11, Closure work in relation to Middlesbrough Development Company: ongoing, though taken longer than anticipated. An assurance report will be presented to Executive in December 2023 on steps being taken to ensure value for money to the Council during this period, with a view to extend the planned closure report to March 2024.

Section 24: Key activities

26. Progress against the Section 24 action plan agreed by full Council on 18 September 2023 is reported to every meeting of Audit Committee. The first report was submitted to this committee on 5 October 2023 and set out the oversight arrangements and reported on two completed actions in-line with their target dates. Since that time, the following additional activity has been delivered:

Rec #	Activity	Supporting information
1	Development of the Corporate governance Improvement Plan	All planned actions in relation to this activity have now been delivered. Action to close.
4	S4.05: Implementation of reporting on monthly Purchase Card activity to Chief Officers	Monthly reports are now provided manually to chief officers. Work has begun to explore options to automate this.
5	S5.04 Review of the Council's asset base to identify surplus assets	A review has been completed. Outcome was presented to Executive on 21 November 2023.
8	S8.01 ensure all staff undertake mandatory e-learning procurement training	1,707 staff who are involved in procurement processes have now completed the training.

Section 24: changes to delivery dates

27. Detailed delivery milestone plans have been developed to underpin the workstream activities within the improvement plan. For this reporting period, the following change controls were agreed by full Council on 29 November 2023:

Key tasks / milestones	Original target date	Revised target date
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	30/11/2023	31/03/2024
Chief Officers to establish management overview arrangements to ensure compliance with contract and financial procedure rules in respect of use of Purchase Cards.	31/10/2023	30/11/2023
Provision of a closure report on Middlesbrough Development Company to Executive	31/12/2023	31/03/2024

28. The protocol will be developed alongside the senior management review and as such timing has been reprofiled. The second action has been amended to align with timescales in the Corporate Governance Improvement Plan. As set out above, it has been necessary to amend the timescales for the completion of the closure of the Middlesbrough Development Company, the change control plans for this.

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

29. Not applicable.

Impact(s) of the recommended decision(s)

Financial (including procurement and Social Value)

30. Not applicable

Legal

31. There are no direct legal implications as a result of this report, however delivery of this plan provides evidence of compliance with a number of recommendations that have been made by the Council’s External Auditors under Section 24 of the Local Audit and Accountability Act 2014.

Risk

32. If the Council fails to respond effectively to the improvement plan, 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, Public Sector Equality Duty and Community Cohesion

33. Not applicable.

Climate Change / Environmental

34. Not applicable.

Children and Young People Cared for by the Authority and Care Leavers

35. Not applicable.

Data Protection / GDPR

36. Not applicable.

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

Not applicable.

Appendices

Appendix no.	Appendix title
1	Corporate Governance Improvement Plan: measures of success

Background papers

Reporting 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 Apr 2023
Corporate Affairs and Audit Committee	Auditor's Annual Report – Year Ended 31 March 2021	29 Jun 2023
Council	Corporate Governance Improvement Next Steps	5 Jul 2023
Council	Section 24 Statutory EY recommendations	18 Sep 2023
Council	Corporate Governance Improvement Plan	18 Sep 2023
Corporate Affairs and Audit Committee	Lessons Learnt: Best Value Inspection of Liverpool City Council	5 Aug 2021
Audit Committee	Section 24 Report – Delivery and oversight arrangements	5 Oct 2023
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	25 Oct 2023
Council	Corporate Governance Improvement Plan and Section 24 Action Plan progress report	29 Nov 2023

Contact:

Ann-Marie Johnstone, Head of Governance, Policy and Information
 Gemma Cooper, Head of Strategy, Business and Customer

Appendix 1: Corporate Governance Improvement Plan: measures of success

Outcome	Measure of Success	Current performance	Frequency of data refresh	Current performance data	Current performance period	Previous performance data	Previous performance period
Improved understanding of corporate governance policies and process and improved adherence to them	Reduce the number of audits that have limited or no assurance		every 2 months	1 out of 8 complete audits	October 2023 report	n/a	
	Improve the percentage of priority One and Priority Two actions from Internal Audits that are delivered within original timescales		Quarterly			20% of P1 actions and 10% of P2 actions were complete within original timescales in 2022/23	
	Reduce / Upheld whistleblowing reports on non-compliance with corporate governance processes.		Annual	0 in 2022/23			
Improved relationships between officers and members	Staff and Member surveys to assess health of relationships and direction of travel		Ad hoc	26.6% of staff think relationships are somewhat or very positive, compared to 69% of Councillors	August 2023 Survey	n/a	
Improved retention of staff	Staff turnover rates – number of leavers	Improved	Quarterly	5.64%	Quarter 2 2023/24	6.60%	Quarter 1 2023/24
Improved staff satisfaction	1-10 Score of how valued staff feel as an employee of the Council	Worse	Ad hoc	5.9	August 2023 Survey	6.22	Nov-22
Reduced need to use agency staff	Number of agency staff working for Middlesbrough Council – total	Improved	Monthly	102	Nov-23	126	Oct-23
improved ability to recruit to key roles.	Number of roles at Head of Service and above that are vacant / occupied by Agency or interim staff	Improved	Monthly	7	Nov-23	8	Oct-23
improved outcomes for our community by ensuring that staff have the skills needed to deliver excellent services and that the behaviours increase trust in the Council	Number of complaints – total	Improved	Monthly	164	Oct-23	211	Sep-23
	Number of complaints upheld or partially upheld by the central team	Improved		78	Oct-23	111	Sep-23
Members have a Member development programme that meets their needs and is well used	Percentage of members completing all mandatory training		Annual	100%	Oct-23	100%	Oct-22
	Percentage of Members attending wider skills	n/a	Annual	98%	Oct-23	Data not available	Oct-22
	Member satisfaction with the Member development programme		Annual	87.5% this is based on 21 responses out of 24	Oct-23	71% this is based on 5 responses out of 7	Oct-22
Performance is effectively managed within the organisation	Completion of appraisal process	n/a	Annual	n/a	n/a	n/a	n/a
Improved Member behaviour	Number of member on member complaints received		Quarterly	3 complaints received member on member	Q2 2023/2024	1 complaint received member on member	Q2 2022/2023
Residents are increasingly satisfied with the way the Council is ran and with the Council overall	Questions within the 2023 Resident survey currently underway		TBD	40%	Nov-23	64%	Previous survey was in 2017
Residents increasingly agree that the Council acts on their concerns	Questions within the 2023 Resident survey currently underway		TBD	43%	Nov-23	n/a	Not previously asked

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Transformation
Culture

Outcome	Measure of Success	Current Performance	Previous Performance	Frequency of data refresh	Current performance data:	Current performance period:	Previous performance data:	Previous performance period:
Expenditure for 2023/24 is completed within the approved 2023/24 budget	Actual expenditure and Forecast revenue outturn within the approved budget	Improved		Quarterly report to Executive	£8.556m	Q2 2023/24	£11.563m (9.2%) forecast overspend	Q1 2023/24
Set a balanced budget for 2024/25 and adhered to during 2024/25	2024/25 revenue budget is balanced and maintained during 2024/25			Annual - One Time	n/a	n/a	n/a	n/a
Set a sustainable Medium Term Financial Plan in place for the period 2024/5 to 2026/27	Balanced MTFP to 2026/27			Annually	n/a	n/a	n/a	n/a
Maintain General Fund balance and usable revenue reserves at	Maintain GF balance at £12m at 31/3/24			Annually	£12.04m	31/03/2023	n/a	n/a
	Maintain usable revenue reserves at a minimum of £4m at 31/3/24.			Annually	£3.959m	01/04/2023	n/a	n/a
Establish Medium Term Plan to rebuild GF Balance and revenue reserves	Section 151 Officer assessment of adequacy of reserves			Feb-24	n/a sufficient resources in place - judgement of S151 officer	Feb 2023 report to Council	n/a	n/a
Financial Procedure Rules and Contract Procedure Rules training delivered	LMT, WLMT, all Budget Holders and all staff involved in Purchase to Pay trained by 31 December 2023	Improved	n/a baseline	31/12/2023 and monthly thereafter	70.30%	Nov-23	69.71	First week of Oct 23
corporate finance training programme established	Quarterly programme of finance training established			Quarterly	n/a	n/a	n/a	n/a
Budget management and purchase to pay dashboards developed to improve management information and compliance	Budget management dashboard available to all budget holders from Business World through Power BI reporting tools by 30 November 2023. P2P Dashboards available by 31 March 2024			n/a one off measure	n/a	n/a	n/a	n/a
Budget management training rolled out to budget holders	All Chief Officers, Heads of Service and Budget Holders Training delivered December 23 to March 24			n/a one off measure	n/a	n/a	n/a	n/a
Establish Business World as one version of the financial truth for internal and external reporting	Reduce/eliminate need for manual intervention and re-work to produce internal budget management and external statutory reporting.			Subjective measure	n/a	n/a	n/a	n/a
Develop value added finance business partnering approach	Realignment of accountancy resource from preparation of reports and more towards business partnering analysis, advice, challenge. By June 2024			Service review completed	n/a	n/a	n/a	n/a

Appendix 2 – Baseline – measures of success – Section 24 Report

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Recommendation	Measure of Success	Frequency of data refresh	Current performance data:	Current performance period:	Previous performance data:
1	Delivery of the Corporate Governance improvement Plan activity	Monthly	6 out of 10 workstreams activity on target	Nov-23	10 out of 10
2	Number of roles at Head of Service and above that are vacant /occupied by Agency or interim staff	Monthly	7	Oct-23	8
3	Reduce the number of audits that have limited or no assurance	Quarterly	1 out of 8 complete audits	October 2023 report	
3	Improve the percentage of priority One and Priority Two actions from Internal Audits that are delivered within original timescales	Annual	20% of P1 actions and 10% of P2 actions were complete within original timescales in 2022/23	2022/23	
3	Percentage of members completing all mandatory training	Annual	100%	Oct-23	
3	Percentage of Members attending wider skills	Annual	98%	Oct-23	
3	Member satisfaction with the Member development programme	Annual	87.5% this is based on 21 responses out of 24	Oct-23	
4	2024/25 revenue budget is balanced and maintained during 2024/25	Annual	n/a	n/a	
5	90% of projects within the programme, once launched are on track	Quarterly once live	n/a	n/a	
5	90% of benefits from projects realised in line with benefits realisation trackers	Quarterly once live	n/a	n/a	
6	Actual expenditure and Forecast revenue outturn within the approved budget	Quarterly	£11.563m (9.2%) forecast overspend	Q1 2023/24	£2.755m (2.3%) overspend
6	Balanced MTFP to 2026/27	Annually	n/a	n/a	n/a
6	Maintain GF balance at £12m at 31/3/24	Annually	£12.04m	Apr-24	n/a
6	Maintain usable revenue reserves at a minimum of £4m at 31/3/24.	Annually	£3.959m	Apr-24	n/a
7 and 8	LMT, WLMT, all Budget Holders and all staff involved in Purchase to Pay trained by 31 December 2023	31/12/2023 and monthly thereafter	70.30%	Nov-23	69.71
9	Reduce / Upheld whistleblowing reports on non-compliance with corporate governance processes.	Annual	0 in 2022/23	2022/23	
10 and 11	provision of quarterly reports on MDC until closure	Quarterly	Report provided in September 2023	Sep-23	n/a

Appendix 3 – Summary of information requested and major action points arising from the Middlesbrough Independent Improvement Advisory Board (MIIAB)

Information requests	Status
Develop a structural diagram showing how different elements of Middlesbrough’s Improvement Programme and Strategies fit together within the Council Plan and Mayor’s priorities that are currently being developed	Complete
The following information to be circulated to Board Members: - A map of Middlesbrough’s Mayoral Development Corporation geographical boundaries. - The People Strategy. - Organisational structure chart and confirmation of number of FTEs employed by the Council.	Complete
A schedule of ‘difficult decisions’ that could be taken over the next 18 months to balance the budget for each department	Complete
Provision of draft savings proposals to inform meeting discussions for both the in-year overspend and the 2024/25 budget	Complete
Corporate Governance Plan to have Portfolio Holders added to Deliverables reporting Framework	Complete
Provide more information on planned public communications that will be undertaken as part of the budget setting process	Complete
Provide a copy of the budget timetable	Complete
Prepare presentation to set out the common challenges facing the Council that are within the remit of both the MIIAB and the current Children’s Safeguarding Improvement Board for the meeting on 1/12/2023	In progress
All member briefing session to be held on 1/12/2023 by the MIIAB	In progress

Major Action point	Meeting date
LGA support offers shared with the Council for consideration	7/11/2023
MBC to consider MIIAB’s feedback on the draft operating model principles that will form part of the Council’s Transformation Strategy	7/11/2023
Consideration of the Board’s feedback on the Council’s draft People Strategy	7/11/2023
Consideration of the Board’s feedback on financial recovery plans and ensure greater urgency and pace is applied to ongoing work to quantify them for the in-year budget gap and the 2024/25 budget proposals	7/11/2023
Council to share details of draft savings proposals, categorised by type i.e. saving, growth or transformational	15/11/2023

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MIDDLESBROUGH COUNCIL	
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Report of:	Head of Internal Audit, Veritau
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Relevant Executive Member:	Executive Member for Finance and Governance
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Submitted to:	Audit Committee
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Date:	14 December 2023
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Title:	Internal audit and counter fraud progress report
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	No
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Why:	Not applicable
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Subject to call in?:	No
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Why:	Not applicable
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Executive summary

This report provides the committee with:

- an update on internal audit and counter fraud work undertaken.
- information on the outcome of Veritau’s recent external quality assessment

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. The report also provides Members with information on Veritau's recent external quality assessment.

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.
6. The report also provides information on Veritau's recent external quality assessment which was completed between June and August 2023.

Internal Audit Progress report

7. 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

8. 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.

External quality assessment

9. To comply with the PSIAS, an external quality assessment (EQA) of our internal audit working practices is required at least every 5 years. Our previous assessment was completed in 2018 and a further review was therefore due in 2023. The Chartered Institute of Internal Auditors was commissioned to undertake the EQA, which was completed between June and August 2023.

10. The outcome of the review was very positive, and the overall opinion was that our internal audit function 'generally conforms' to the standards. This is the highest opinion that can be provided¹
11. The feedback included comments that the internal audit service was highly valued by its member councils. Key stakeholders felt confident in the way Veritau had established effective working relations, both in our approach to planning, and the way we engaged flexibly with our clients throughout the internal audit process, at both strategic and operational levels.
12. The report concluded that Veritau generally conforms to 59 of the 60 applicable principles. A copy of the full EQA report is included at appendix 3. One area for improvement was highlighted relating to assurance mapping. The recommendation and our response are included in the table below.

Recommendation	Response and Action Date
<p>The CAE [Head of Internal Audit] should continue to develop a proportionate, formal approach to assurance mapping, coordination and where appropriate, reliance, to enhance the function's risk-based planning, delivery and the effectiveness of assurance provided to key stakeholders.</p>	<p>Agreed – we will develop our approach to assurance mapping and working with other internal and external assurance provision. The approach will be flexible to reflect the different sectors and clients we provide internal audit services to.</p> <p>Target implementation date 31 March 2024</p>

13. At the time of writing this report, the Global Institute of Internal Auditors is making their final revisions to the new Global Audit Standards following a period of worldwide consultation earlier in 2023. The Global Audit Standards will effectively replace the International Standards for the Professional Practice of Internal Auditing, combining all mandatory elements which form the International Professional Practices Framework.
14. According to current timescales, the Global Audit Standards are expected to be published in January 2024. Internal audit providers will then have 12 months to adapt and adopt before the Standards come into effect in 2025.
15. Veritau is tracking development of the Global Audit Standards closely, and we will ensure that any changes to required practice are reflected in our processes.

What decision(s) are being recommended?

That the Audit Committee

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

¹ Guidance in the standards suggests a scale of three ratings, 'generally conforms', 'partially conforms', and 'does not conform'.

- Notes the information on the outcome of Veritau's recent external quality assessment.

Rationale for the recommended decision(s)

16. 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 alternative(s) and why these have not been recommended

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

Impact(s) of the recommended decision(s)

Financial (including procurement and Social Value)

18. There are no specific impacts or implications.

Legal

19. There are no specific impacts or implications.

Risk

20. There are no specific impacts or implications.

Human Rights, Public Sector Equality Duty and Community Cohesion

21. There are no specific impacts or implications.

Climate Change / Environmental

22. There are no specific impacts or implications.

Children and Young People Cared for by the Authority and Care Leavers

23. There are no specific impacts or implications.

Data Protection / GDPR

24. 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 December 2023
2	Counter fraud progress report December 2023
3	External quality assessment final report 2023

Background papers

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

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INTERNAL AUDIT PROGRESS REPORT

Date: 14 December 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 24 November 2023.



INTERNAL AUDIT PROGRESS

- 5 Since the last progress report to this committee, we have finalised four audits including a review of procurement card use in Children's Services. This was given a Limited Assurance opinion. As a result of the issues identified we have widened the work to review use of procurement cards across the Council.
- 6 Several new audits are underway including early years funding, procurement, direct payments and VAT accounting.
- 7 A summary of internal audit work currently underway, as well as work finalised during 2023/24 is included at annex A, below.
- 8 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.
- 9 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).
- 10 It is likely that most audits in the 'do later' category will now be considered for commencement at the beginning of 2024/25. These audits along with

any other new or emerging priorities will be considered as part of the planning process for the 2024/25 internal audit work programme.

- 11 As noted above, four audits have been finalised since the last progress report to this committee in October 2023. A summary of the findings from these audits is included at annex C. We have provided additional detail for the report on procurement card use in Children's Services which was given a Limited Assurance opinion.
- 12 Annex D lists our current definitions for action priorities and overall assurance levels.

FOLLOW-UP OF AGREED ACTIONS

- 13 Following an audit, actions are agreed with the responsible managers to address any issues found. All actions agreed 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
Domestic abuse	On hold
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 – Liquid Logic	In progress
IT applications – iTrent	In progress
Procurement cards	In progress
Procurement	In progress
Direct payments	In progress
Information governance including FoI	In progress
Schools themed audit (business continuity)	In progress
VAT accounting	In progress
Early years funding	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
Tees Community Equipment Service	December 2023	No opinion given
Homecare	December 2023	Reasonable Assurance
Procurement cards (Children's Services)	December 2023	Limited Assurance
Selective landlord licensing	December 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 Family Life and Hubs, Changing Places Fund and Children's Services Practice Improvement.
- 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.
- A Homes England compliance audit on the Council's Affordable Housing Programme.

ANNEX B: CURRENT PRIORITIES FOR INTERNAL AUDIT WORK

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
Corporate & cross cutting			
Category 1 (do now)			
Procurement cards	This is now underway to review usage across all Council directorates following the report issued into use in Children’s Services.	October 2023	March 2024
Health and safety	Planning has commenced.	November 2023	March 2024
Procurement	Planning has commenced.	November 2023	March 2024
Information governance including FoI	Planning has commenced.	December 2023	July 2024
Category 2 (do next)			
Category 3 (do later)			
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.		

¹ This is the expected date the audit findings will be included in reports to the Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Audit Committee. The next planned reports to the committee are in March 2024 and July 2024.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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 ¹
Financial / Corporate systems			
Category 1 (do now)			
Debtors	Fieldwork is nearly complete and a draft report is expected to be issued in November or December 2023.	April 2023	March 2024
Teesside Pension Fund – Administration	Fieldwork is underway.	October 2023	March 2024
Main accounting	Fieldwork is underway. The audit is now likely to reach draft report stage in December.	August 2023	March 2024
Treasury management	Planning has commenced.	November 2023	March 2024
Benefits & Council Tax Support	Fieldwork is underway.	October 2023	March 2024
VAT accounting	Planning has commenced.	November 2023	July 2024
Category 2 (do next)			
Payroll	This is a key financial system requiring effective internal controls. This was originally planned to start in Q3; however the service has requested a January start date due to work pressures in December.	January 2024	July 2024
Creditors	This is a key financial system requiring effective internal controls. This will commence following the debtors audit.	December 2023	July 2024

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
Teesside Pension Fund – Investments	This is a key financial system for the Pension Fund requiring effective internal controls.	January 2024	July 2024
Category 3 (do later)			
ICT			
Category 1 (do now)			
IT Applications (1)	Fieldwork underway. This is reviewing the Liquid Logic care system.	September 2023	March 2024
IT Applications (2)	Fieldwork underway. This is reviewing the iTrent HR system.	September 2023	March 2024
Category 2 (do next)			
Category 3 (do later)			
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.		
Operational audits			
Category 1 (do now)			
Domestic abuse	A scope of work has been agreed; however the audit has not progressed in part due to changes in senior management within Children's Services. The	May 2023	TBC

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
	audit is now likely to be deferred until 2024 once we have agreed new timescales with management.		
Public health governance	Fieldwork is now complete. This is likely to be finalised in December.	May 2023	March 2024
Supporting families	Quarterly review of grant claims. Q1 and Q2 are complete.	Ongoing	Ongoing
Agency staff (Children's Services)	Fieldwork is now complete. This is likely to be finalised in December.	August 2023	March 2024
Use of residential care	Fieldwork is underway.	September 2023	March 2024
Early years funding	Planning has commenced.	November 2023	July 2024
Direct payments	Planning has commenced.	November 2023	July 2024
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. The next audit will look at business continuity arrangements.	December 2023	July 2024
Category 2 (do next)			
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

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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
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.	January 2024	July 2024
Category 3 (do later)			
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. Possible areas for review will be discussed with the new DCS.		
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.		
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.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish ¹
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. 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
Homecare	Reasonable Assurance	Payment data, forecasting, the link between the care assessment process, commissioning of care and care received.	26 th September 2023	There is no formal process for comparing invoiced amounts to services provided.	Capacity within the team will be increased to enable increased checking and monitoring reports will be produced and reviewed.	0	2
Purchasing cards (Children's Services)	Limited Assurance	Card usage, monitoring, treatment of VAT.	25 th October 2023	See further details below.	See further details below.	4	8
Tees Community Equipment Service	No Opinion Given	The audit provided advice in relation to compliance with Council regulations, monitoring of stock levels, payments for invoices and partnership agreements.	8 th November 2023	The service was not using the Council's invoicing system and was over-reliant on purchasing cards.	An action plan will be developed to reduce the use of purchasing cards and bring processes in line with the rest of the Council.	0	1

System/area	Opinion	Area reviewed	Date issued	Comments / Issues identified	Key management actions agreed	P1 actions	P2 actions
Selective landlord licensing	Substantial Assurance	Administration of the scheme, performance monitoring.	24 th November 2023	Systems are working well with few issues identified.	No P1/P2 actions agreed.	0	0

ADDITIONAL DETAILS OF AGREED ACTIONS

Finding	Priority	Agreed Action	Responsible Officer	Timescale
1. VAT is not being recorded on the RBS (banking) system in all instances where it could be, in order to maximise the money that the Council can claim back. Copies of VAT invoices/receipts are not always being provided to support the claiming of VAT.	1	The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled.	Head of Strategic Commissioning & Procurement	31 st October 2023
	1	Individuals granted authorisation to hold a card will have 1-1 training regarding the card process, including the essential element of VAT and the requirement to attach a receipt. The training will also include the how and when transactions should be reviewed, the need to include a full description of spend, and direction not to split transactions to avoid the need for transactions to be approved by a line manager.	Head of Strategic Commissioning & Procurement	30 th November 2023

Finding	Priority	Agreed Action	Responsible Officer	Timescale
	1	In exceptional circumstances where a receipt is not available the purchase must be approved by a line manager, with a documented reason why no receipt is available.	Director of Children's Care	30 th November 2023
	1	Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements.	Director of Children's Care	30 th November 2023
2. No evidence is available to demonstrate that the purchasing of flights using a purchasing card provided better value than using the Council's centralised travel bureau.	2	Travel bookings will be routed through the centralised travel bureau, purchasing cards will only be utilised for exceptional travel arrangements when the travel bureau is unable to support. In all circumstances, irrespective of spend, transactions related to travel will be authorised by the line manager.	Director of Children's Care	31 st October 2023
3. There is evidence of non-compliance with the requirements to review and approve purchasing card spend.	Agreed actions for finding 1 apply to this finding.			

Finding	Priority	Agreed Action	Responsible Officer	Timescale
4. The requirement to provide descriptions of purchasing card spend and supporting receipts are not being complied with.	2	Work will be undertaken with the bank (RBS) to ascertain if the description can be made mandatory.	Head of Strategic Commissioning & Procurement	31 st October 2023
5. Purchasing card spending limits are not being reviewed in order to establish if limits in excess of the default £1k limit are appropriate.	2	Individual limits per transaction and total monthly spend limits will be set for each cardholder. Any deviation from this will be actioned on a temporary basis with documented approval for the Head of Service and actioned for a maximum of 24 hours.	Director of Children's Care	31 st October 2023
	2	Where a permanent change is required then a business case evidencing the service need will be required signed off by the relevant Director and the S151 officer or their Deputy.	Head of Strategic Commissioning & Procurement	31 st October 2023
6. There are instances where cardholders have reviewed and approved their own spend.	2	Line Managers for each cardholder will be confirmed.	Director of Children's Care	31 st October 2023
	2	A quarterly review of all card holder information for accuracy will be undertaken to pick up instances where procurement have not been notified of staff changes.	Head of Strategic Commissioning & Procurement	31 st October 2023

Finding	Priority	Agreed Action	Responsible Officer	Timescale
7. Purchasing card payments have been split into several transactions to avoid the £1k threshold that requires line manager approval.	2	Individual limits per transaction and total monthly spend limits will be set for each cardholder.	Head of Strategic Commissioning & Procurement	30 th November 2023
	2	Procurement will provide monthly reports to Directors on Procurement Card spend and will sample transactions for split transaction activity.	Head of Strategic Commissioning & Procurement	30 th November 2023
8. No evidence is available to confirm that refunded transactions classified as fraudulent have been investigated.	3	Where fraudulent activity has been reported by a cardholder this will result in an investigation from procurement and a notification to internal audit. Details regarding this process will be included within the procurement card guidance.	Head of Strategic Commissioning & Procurement	30 th November 2023
9. Purchasing card guidance documents are not subject to a review process.	3	All associated policies for purchasing cards will be reviewed and updated, with clear dates and an indicated review period.	Head of Strategic Commissioning & Procurement	30 th November 2023

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 Audit Committee.

Actions completed

A total of 9 actions have been completed since the last report to this committee. A summary of the priority of the 9 completed actions are 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	2	1	0	2	0	0	0	0
2	6	2	0	2	2	1	0	1
3	1	3	0	0	0	0	1	0
Total	9	Total	0	4	2	1	1	1

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Actions Outstanding

A total of 21 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	6	1	0	0	6	0	0	0
2	14	2	2	7	5	0	0	0
3	1	3	0	0	1	0	0	0
Total	21	Total	2	7	12	0	0	0

Of the 21 actions outstanding 14 have had a revised date agreed. The remaining 7 actions are currently being followed-up.

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

Ten 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 two actions are included in the table below. Revised dates have been agreed and we will follow these up when the new implementation dates become due.

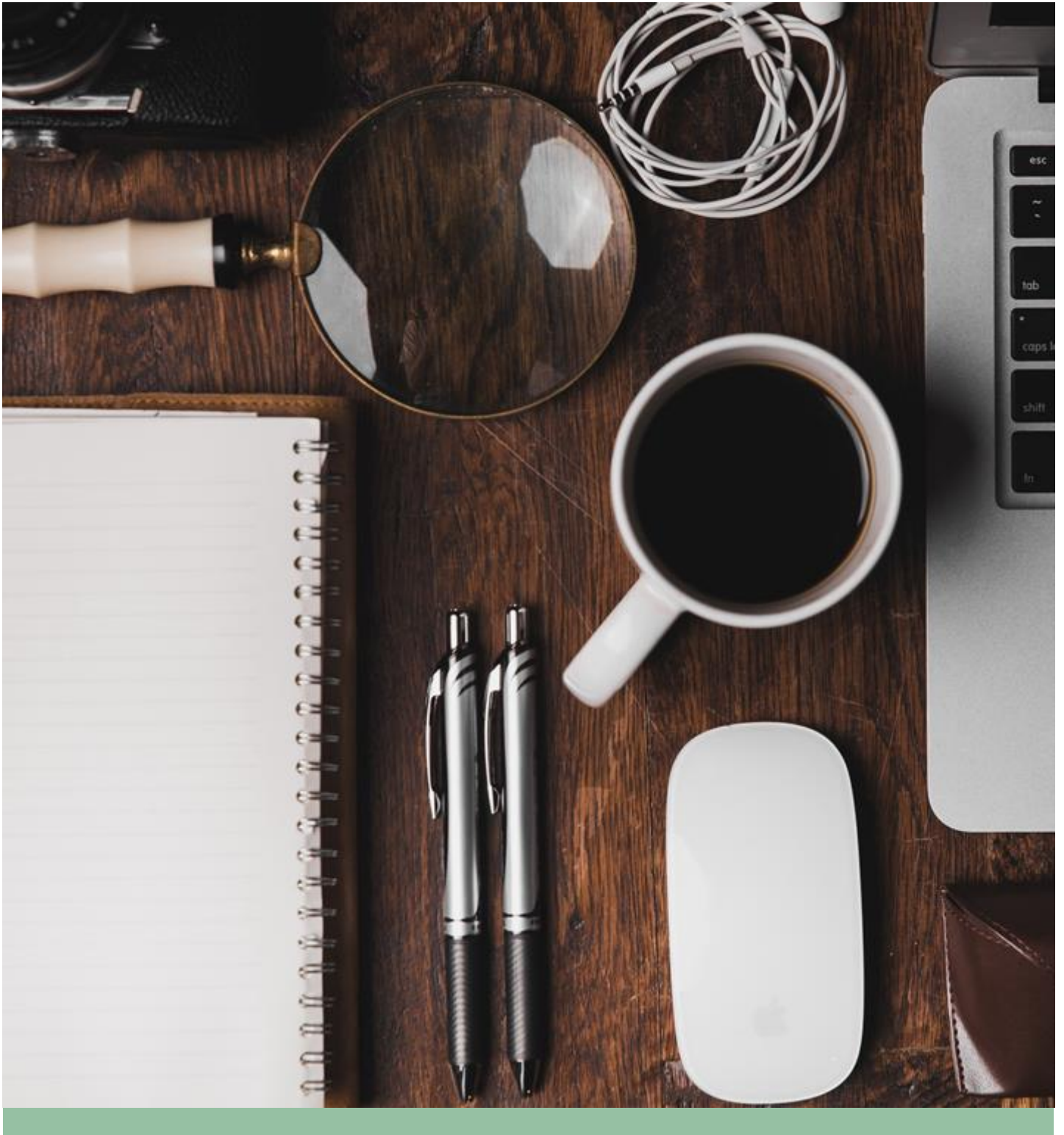
Audit	Priority	Original Date	Revised Date	Finding / Action	Reason for Delay
Burials	2	31/12/2022	31/12/2023	A charter is being developed to clarify the role of the Council in respect of death registration, burials and cremations. The charter will be completed in conjunction with the Head of Democratic 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.	Implementation of these actions has been delayed due to some ongoing operational issues. Further revised dates have been agreed.
Burials	2	31/12/2022	31/01/2024	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: 14 December 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 2020/21¹. 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 Audit Committee on counter fraud activity in 2023/24.



FRAUD MANAGEMENT

- 4 The Council's counter fraud framework was reviewed and updated in September 2023. This included an updated strategy action plan, anti-fraud, corruption, and bribery policy, and fraud risk assessment.
- 5 Cybercrime and security issues were highlighted to Council employees in October as part of Cybersecurity Awareness Month. The campaign informed staff of different types of cybercrime that could affect the Council and how it can be prevented.
- 6 In November, we marked International Fraud Awareness Week. We used the week to raise awareness of the counter fraud service and inform employees and the public about how to report concerns of fraud.



MULTI-AGENCY WORK

- 7 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. Additional data matches incorporating HMRC data were released in November, bringing the total number of matches to 6000. These are currently under review by the counter fraud team and other teams across the Council.

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

INVESTIGATIVE WORK

- 8 Between 1 April and 20 November 2023, the counter fraud team received 64 referrals of suspected fraud. These cover potential council tax fraud, council tax reduction fraud, internal fraud and debt evasion issues. Referrals have been made by members of staff, the NFI, and the public. Twenty-three investigations have been completed this year and there are currently 25 cases under investigation.
- 9 In October, the Council prosecuted a man who had falsely claimed council tax reduction. The case was investigated following a NFI match which indicated he had undeclared income. The man had claimed council tax reduction in 2015 and qualified for it due to his low income and residence at a property in Linthorpe where he lived. When applying for the discount he failed to declare that he owned two properties in London. One was a house of multiple occupation which was being rented out. The estimated combined value of the two undeclared properties is over £1.2m. The man also failed to declare his rental income from the London property and a number of other changes in employment during the course of his claim. Between 2015 and 2021 he received £7,800 in council tax discounts that he was not entitled to. He pleaded guilty to all six charges laid against him at Teesside Magistrates Court and was ordered to pay an £846 fine, £338 victim surcharge, and £1,270 towards the Council's legal and investigation costs.
- 10 Investigative work in 2023/24 has identified £52k of loss due to fraud and error. The counter fraud team supports the Council to recover losses identified as part of investigations. Counter fraud savings are also tracked by monitoring repayments to the Council and calculating the value of stopping ongoing frauds. To date £33k of counter fraud savings have been identified.
- 11 Working with Legal Services, the team assist the Council to trace individuals who have outstanding debts. This year information has been provided to support the recovery of debts totalling £47k.

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Chartered Institute of
Internal Auditors

REPORT



External Quality Assessment (EQA)

A report for Veritau



Prepared by John Chesshire, approved reviewer for
The Chartered Institute of Internal Auditors

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External Quality Assessment
(EQA)

A report for:
Veritau

08 September 2023
www.iaa.org.uk/eqa



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Executive summary



External Quality Assessment (EQA)

A report for:
Veritau

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www.iaa.org.uk/eqa



1.1 Background and Scope

The Veritau Group (Veritau) comprises 78 inhouse team members and is wholly owned by four local authorities, following the recent local government reorganisation in North Yorkshire. 34 of these team members are currently involved in delivering Internal Audit services. This focus is supplemented by specialist teams covering Counter Fraud and Information Governance.

Veritau provides Internal Audit and other assurance services to local authorities and other public sector bodies including national park authorities, a children's trust, academy and multi-academy trusts. Client arrangements are established for each contract. Clients appoint a chief officer to manage internal audit contracts with Veritau. Reporting arrangements are established at each client via an Internal Audit Charter.

Veritau previously had an external quality assessment (EQA) in 2018, undertaken by SWAP. We are delighted that Veritau have commissioned us to undertake this EQA.

Our review included a full validation of Veritau's own self assessment against the Public Sector Internal Audit Standards (PSIAS) and International Professional Practices Framework (IPPF), interviews with key stakeholders from across the primary client base, and short discussions with members of the Internal Audit function .

We conducted this EQA in a remote format - over June-August 2023.

1.2 Key Achievements

Veritau are a well-established Internal Audit service, valued by the key stakeholders we spoke to during this EQA review.

The governance framework over Veritau is mature, with well-established board oversight. The board primarily comprises directors appointed by member councils. Operationally, Veritau report to client Audit Committees (or equivalent) with effective relationships marked by appropriate support, challenge, oversight, engagement, reporting, and performance monitoring.

The Chief Executive - with an extensive local government background - leads Veritau, supported by a deputy, and seven Assistant Directors, four of which manage Audit Assurance teams. Stakeholders view the Chief Executive as a trusted and respected leader. A clearly written and effective Internal Audit Strategy highlights key priorities and areas of focus for the service.

Veritau undertake a range of diverse assurance engagements. These include coverage of traditional and emerging areas of governance, risk, and control relevant to the public sector.

We received positive responses to our questions about the wider function and its services from those we interviewed. Key stakeholders felt confident in the way Veritau had established effective working relations, their approach to planning, and the way in which the function engages flexibly with its clients throughout the internal audit process, at both strategic and operational levels.

Veritau develop and deliver an annual risk-based audit plan for their clients. Key stakeholders felt clearly engaged and appropriately involved in the design of this. The CAE and their senior colleagues actively monitor the function's performance and

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External Quality Assessment
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have implemented appropriate engagement-level quality assurance checks. We believe that the function's supporting operational, engagement-level procedures, documentation and associated templates are primarily fit for purpose.

1.3 EQA Assessment Conclusion

We are pleased to report that Veritau conforms with nearly all the Standards, as well as the Definition, Core Principles, and the Code of Ethics, which form the mandatory elements of the PSIAS and the Institute of Internal Auditors' IPPF, the globally recognised standard of quality in Internal Auditing.

To summarise, we are pleased to report that Veritau are good in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Operating with efficiency

We believe that Veritau are satisfactory in their:

- Quality Assurance and Improvement Programme

Finally, like many Internal Audit functions at the present time, we consider that Veritau needs improvement in their:

- Coordinating and maximising assurance

The need to consider how best to rely on and coordinate with other assurance providers remains an emerging area of internal audit, and assurance practice, as does assurance mapping. It depends as much on the nature and effectiveness of the other assurance providers, and the willingness and awareness of the value in this from senior management and audit committees, as it does on internal audit.

In addition to the conformance recommendations, there is scope for improvement in a small number of other areas as summarised in Section 3.2 below. It will be appropriate for the function to say in reports and other literature, once it has addressed the issues raised, that it "conforms to the IIA's Professional Standards".

Our overall opinion is that the Internal Audit function "generally conforms" to the PSIAS and the IIA Standards (See [Appendix A1](#) for our Grading definitions) (See [Section 2](#) for more detail).

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1.4 SWOT Analysis

Strengths What works well	Weaknesses What could be done better
<ul style="list-style-type: none">• Internal Audit management are experienced, work well together and key stakeholders respect - and have confidence - in their competence, public sector expertise, and capabilities• The function draw upon work with different clients to add value when conducting similar reviews across their client base• An effective, well-presented Internal Audit Strategy guides the service, with the next iteration due later this year• Risk-based annual plans cover relevant, topical areas and are developed through effective stakeholder engagement and remain flexible, agile in nature and can be modified• Stakeholders value the function's professionalism, communications, and engagement reporting.• The work and skills of the wider Counter Fraud and Information Governance teams support internal audit delivery• The function maintains an up-to-date view of skills and competencies that is regularly revisited and refreshed.• The Learning and Development policy and Audit Trainee Development Programme show commitment to personnel	<ul style="list-style-type: none">• Formal assurance mapping, coordination, and reliance - where appropriate - should be progressed with some key clients• Response rates to post-audit and wider customer satisfaction surveys are low and the function may miss out on operational stakeholder insights
Opportunities What could deliver further value	Threats What could stand in your way
<ul style="list-style-type: none">• Further development of the function's data analytics and AI capabilities would add additional value and insights• An updated strategy covering data analytics and IT auditing, integrated with the results of the QAIP and the function's development needs, could usefully drive improvement priorities• The Internal Audit Manual could include specific reference to relevant standards to reinforce why certain activities are needed• A Balanced Scorecard, with revised KPIs, could usefully focus internal audit effort more on outputs, outcomes, insight and added value• Further agile, efficient planning and delivery could prove more beneficial	<ul style="list-style-type: none">• Failure to retain experienced internal audit staff could threaten service resilience and delivery. Succession could become a challenge• Emerging risks and increasing complexity in the external environment could threaten the function's ability to deliver insight and add value in specialist service areas• Client budget cuts could impact service delivery and threaten the CAE's ability to deliver an effective service and annual opinion• Over-expansion could be seen negatively by some existing clients who may worry that they will see a loss of quality in service provision• Automatic public release of internal audit reports by some clients can cause delays in engagement finalisation and communication of results• Excessive remote working could impact client engagement and relationships, particularly for new team members or when clients change

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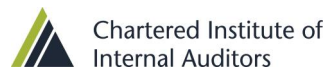
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1.5 Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that Veritau conforms to 59 of the 64 relevant principles, with partial conformance on one principle. The four remaining principles were not applicable to Veritau as they relate to situations that have not occurred to date.

This is summarised in the table below.

Summary of conformance	Standards	Generally conforms	Partially conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	6			1	7
Managing the Internal Audit Activity	2000 - 2130	11	1			12
Performance and Delivery	2200 - 2600	18			3	21
Total		59	1		4¹	64

¹ We have marked four principles as 'not applicable' as they relate to situations that have not occurred to date (Attribute Standard 1322, Performance Standards 2421, 2430 and 2431).

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Executive summary



External Quality Assessment
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1.6 Further Improvement Opportunities

In addition to our one recommendation to improve conformance, there is scope for improvement in areas as summarised below:

Proficiency

- We support the CAE's intention to further develop the function's data analytics and AI capabilities to add additional value and insights.

Enhancing Internal Audit due professional care and policies and procedures

- The CAE could consider direct referencing of the Standards in relevant sections of the Veritau Internal Audit Manual to clearly demonstrate why particular activities, actions and steps are required. This will be more beneficial for new entrants who join the function in the future.

Quality Assurance and Improvement Programme

- The CAE could document a formal improvement plan that captures and integrates the various teams, methodology, data and other service enhancement actions and initiatives to underpin key priorities and objectives in the Internal Audit Strategy refresh.
- Response rates to post-audit and wider customer satisfaction surveys are low and the function may miss out on operational stakeholder insights. The CAE could revisit the approach and process for soliciting customer feedback to help ensure it maximises added value.
- We support the CAE's intention to develop a balanced scorecard for the internal audit service and revisit the function's KPIs.

Planning

- The CAE should continue the move away from traditional annual planning to further enhance agility.

1.6 Acknowledgement

We would like to thank Max Thomas and his team, for their time, assistance and support during this review, and all of those who took part in the review, for their cooperation, together with their open and honest views.

3

Supporting continuous improvement the Standards



External Quality Assessment (EQA)

A report for: Veritau

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2.1 Area for Improvement [Standards 2050]

Standard 2050, Coordination and Reliance

The chief audit executive should share information, coordinate activities and consider formal reliance upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

While some reliance is placed on the work of some internal and external assurance providers, and the CAE is exploring opportunities to place reliance and better coordinate activity with other second-line assurance providers, this could usefully be formalised and supplemented with assurance mapping across all key clients to add further value.

The function have approached this to varying degrees, with some clients, while others have been less interested. Further engagement with Audit Committees and senior management may help raise awareness of the value of this activity.

	Recommendation	Response and action date
1	The CAE should continue to develop a proportionate, formal approach to assurance mapping, coordination and – where appropriate – reliance, to enhance the function’s risk-based planning, delivery and the effectiveness of assurance provided to key stakeholders.	Agreed – we will develop our approach to assurance mapping and working with other internal and external assurance provision. The approach will be flexible to reflect the different sectors and clients we provide internal audit services to. Target implementation date – 31 March 2024.

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Supporting continuous improvement

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The Chartered Institute regards conformance to the IPPF as the foundation for effective Internal Audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with Chief Audit Executives/Heads of Internal Audit, summarised in an Internal Audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered IIA UK and Ireland.

It is our aim to offer advice and a degree of challenge to help Internal Audit functions continue their journey towards best practice and excellence.

In the following pages we present this advice in two formats:

- A matrix describing the key criteria of effective Internal Audit, highlighting the level of maturity the Internal Audit function has achieved and the potential for further development, recognising that effective Internal Audit goes further than purely conformance with the IIA Standards. ([See 3.1](#))
- A series of improvement opportunities and suggestions which the Internal Audit function could use as a basis for an action plan. ([See 3.2](#))

3

Supporting continuous improvement

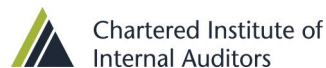


External Quality Assessment (EQA)

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08 September 2023

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3.1 Internal Audit matrix

		IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Assessment levels	Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to, and is respected for its assessment, advice, and insight.	IA is fully independent and is recognised by all as a 3 rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise, and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
	Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC.
	Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active, and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
	Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagement go beyond deadline and a number are10efered.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
	Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks, and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

Note: The maturity level of the function will depend on several factors, including the maturity and the risk appetite of the organisation. Consequently, not all audit functions will aspire to being "Excellent" across the board.

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3.2 Further improvement opportunities

This section of the report details additional feedback and observations which, if addressed, could further strengthen the impact of Veritau. These observations are not conformance points but support Veritau's ongoing development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

Opportunity A: Standard 1210 Proficiency

Improvement opportunity	
1	We support the CAE's intention to further develop the function's data analytics and AI capabilities to add additional value and insights.

Opportunity B: Standard 1220 Due Professional Care and 2040 Policies and Procedures

Improvement opportunity	
2	The CAE could consider direct referencing of relevant Standards in specific sections of the Veritau Internal Audit Manual to clearly demonstrate why particular activities, actions and steps are required. This will be more beneficial for new entrants who join the function in the future, but is also useful as a reminder of what internal audit does, and why, to existing team members.

Opportunity C: Standard 1300 Quality Assurance and Improvement Programme

Improvement opportunity	
3	The CAE could document a formal improvement plan that captures and integrates the various methodology, data and other service enhancement actions and initiatives to underpin key priorities and objectives in the Internal Audit Strategy refresh.

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Opportunity D: Standard 1300 Quality Assurance and Improvement Programme and 1311 Internal Assessments

Improvement opportunity

4	The CAE could revisit the approach and process for soliciting customer feedback to help ensure it maximises added value.
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Opportunity E: Standard 1300 Quality Assurance and Improvement Programme and 1311 Internal Assessments

Improvement opportunity

5	We support the CAE's intention to develop a Balanced Scorecard for the Internal Audit function and revisit the associated KPIs.
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Opportunity F: Standard 2010 Planning

Improvement opportunity

6	The CAE should consider whether a move away from traditional annual planning - at least with some clients - may further enhance agility.
---	--

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Appendix



External Quality Assessment (EQA)

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A1 Global Grading Definitions

We have used the following rating scale in this report:

Generally Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating.

4

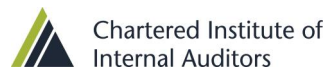
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A2 Stakeholder Interviews and feedback

We interviewed the following individuals as part of the review.

Stakeholders	Title / Position
Tracy Davies	Assurance Manager, Sunderland City Council
Rob Davisworth	Chief Accountant, Redcar and Cleveland Council
Gary Fielding	Section 151 Officer, North Yorkshire Council
Richard Flinton	Chief Executive, North Yorkshire Council
Anton Hodge	Assistant Director - Resources, North Yorkshire Council
Barry Khan	Assistant Chief Executive Legal and Democratic Services, North Yorkshire Council
Cllr Nigel Knapton	Former chair of Hambleton DC audit committee
Cllr Cliff Lunn	Chair of the North Yorkshire Council Audit Committee
Debbie Mitchell	Section 151 Officer, City of York Council
Cllr Carole Morgan	Chair of Governance Committee, Redcar and Cleveland Borough Council
David Portlock	Independent member of North Yorkshire Council Audit Committee and Chair of the Pension Fund Board
Bryn Roberts	Monitoring Officer, City of York Council
Lee Yale-Helms	Director of Finance & Resources, Birmingham Children's Trust

Internal Audit Function	Title / Position
Stuart Cutts	Assistant Director - Audit Assurance
Connor Munro	Assistant Director - Audit Assurance
Richard Smith	Deputy Chief Executive
Max Thomas	Chief Executive

Feedback from stakeholder interviews

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Working with the business

“The Internal Audit service have delivered some real added value and have helped save a lot of time as we have involved them actively in our recent period of change. They have been great in responding flexibly and delivering helpful advice.”

“The Internal Audit service is well-regarded on the whole.”

“Veritau and their plan is flexible, and topics can be moved around to better meet operational needs.”

“Remote working has gone well, but it would be good to see them more in-person.”

“We have good, effective relations, with a fortnightly catch up, a monthly review of progress against plan and other meetings as, and when required.”

“The wider perspective they bring from working with other organisations is very useful for us.”

“I see just the right amount of balance between support, advice and challenge.”

“They are very professional and have handled the occasional disagreements effectively and well.”

“They are respected by Audit Committee members and listened to.”

“In the pandemic they were very patient with operational areas, and this was highly valued.”

Communication

“Audit Committee reporting is good - Max is a seasoned professional and his team support him well.”

“They could be a little more robust from time to time with the business. I sometimes feel that they been a bit soft.”

“Veritau are very fair and very open – they certainly bring to our attention what they think we will need.”

“Their reports are good, well-structured and clear.”

“How they phrase recommendations can be a bit pessimistic and their reports can be a bit negative in tone sometimes. There can sometimes be a lengthy delay between draft and final, but some of that may be down to us.”

“Veritau are not afraid to say when things are wrong and to highlight the need for improvement.”

“Reports for the Audit Committee are always very detailed and give us good value.”

“Their reporting is just about right, and I have got used to their reports over the years.”

Internal Audit plans and coverage

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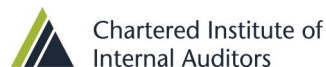
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“Internal Audit’s plans are absolutely focussed on the key objectives and risks of the Authority.”

“I feel that we are suitably involved in the annual planning process, with one-to-one meetings, conversations with service leads and discussion at Audit Committee. As a result, the plans tend to look at the right things.”

“They involve the Committee in developing the forward plan and definitely seek our input.”

“I do get the assurance that I need from them. They can’t look at everything, so their work is targeted well.”

“I think that I am getting the assurance I need. They do give us good value, respond to requests well, and are looking at the right things.”

“Their work on cyber security and business continuity has added real value.”

“Key stakeholders here have the opportunity to feed into the Internal Audit plan and Veritau are certainly open to suggestions of subjects to audit.”

“They have done some good work with us on assurance mapping, but I am unclear what happens next and how it will integrate into future internal audit planning here.”

Value

“My impression of Max and the team is that they are excellent and strive to add real value.”

“Given their size, they have access to specialists and expertise that is really helpful for us. This is also beneficial as Veritau can bring a richness of experience and wider perspectives from what they have seen with other clients.”

“As a whole, the service is high quality and I’m a very happy stakeholder when it comes to Internal Audit.”

“The service has been excellent, and the clients have all been happy here. They have delivered quality and benefit to us.”

“I have been incredibly impressed with the quality of their anti-fraud work.”

“They demonstrate a real willingness not just to audit us, but to understand the organisation.”

“I am generally very happy with the Internal Audit service, with their leadership and I have absolute trust in them.”

“They support us hugely, are incredibly versatile, and very flexible in focussing on the right things at the right time.”

“They have added value in everything they have looked at so far and have really helped change things away from the traditional internal audit we had before. Their experience of other clients – and their own risk-based approach – are all most welcome.”

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Disclaimer: John Chesshire undertook this review in Quarters Two and Three 2023 on behalf of the Chartered Institute of Internal Auditors. This report provides management, Veritau Group and client Audit Committees with information about Veritau of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

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MIDDLESBROUGH COUNCIL



Report of:	Director of Legal and Governance Services
Relevant Executive Member:	Executive Member for Finance and Governance
Submitted to:	Audit Committee
Date:	14 December 2023
Title:	Partnership Governance – annual assurance report
Report for:	Information
Status:	Public
Strategic priority:	All
Key decision:	Not applicable
Why:	Not applicable
Urgent:	Not applicable
Why:	Not applicable
Proposed decision(s)	
That the Audit Committee notes the information set out within this report and the planned next steps.	

Executive summary

This report sets out the arrangements in place to assess the health of existing key, strategic partnerships where Middlesbrough Council is a member, in some form.

Purpose

1. The purpose of this report is to outline the results of the annual assessment of the key partnerships that Middlesbrough council is a member of, against the Council's Partnership Governance Policy and supporting minimum standard.

Recommendations

2. That the Committee:
 - Notes the current position of the Council in relation to compliance with the Partnership Governance policy.
 - Notes the planned actions to strengthen governance in relation to performance management.

Rationale for the recommended decision(s)

3. These ongoing actions will support good practice in the Council's partnership governance arrangements.

Background and relevant information

4. The Partnership Governance Policy has been in place since it was approved by Executive in February 2020.
5. The policy defines a partnership as 'an arrangement in which the Council agrees to collaborate with one or more legally independent organisations to achieve shared objectives and outcomes'.
6. Partnerships are key to the Council achieving its strategic objectives and their importance will inevitably increase in the coming years. It is critical that partnerships are managed with the same diligence as the internal activity described above to ensure that their contribution to the Council's strategic aims and priorities are maximised.
7. The key elements of the policy are:
 - Each partnership will have a lead manager of appropriate seniority.
 - The business case for a partnership will be approved by the appropriate body in the Council before the Council formally enters into a partnership agreement.
 - All agreed partnerships will meet a minimum standard, with the level of detail required to be determined by the significance of the partnership in strategic and financial terms. This will include, for example, the partnership vision, aims and objectives, KPIs, governance arrangements, resourced action plan, and monitoring, review and dissolution processes. All formal partnership agreements and structures must be approved by Legal Services.
 - A partnership register will be maintained that lists and defines all partnerships, setting out how they contribute to the Council's strategic aims and priorities.
 - An annual review of the performance of significant partnerships will be integrated with the Council's performance management reporting and be informed by an assessment of the lead manager.
 - Training and guidance for those employees engaged in collaborative working will be provided.

Partnership Governance Register and Framework

8. The Partnership Governance Register assesses the health of existing partnerships across the following principles:
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
 - Ensuring openness and comprehensive stakeholder engagement
 - Defining outcomes in terms of sustainable economic, social and environmental benefits
 - Determining the interventions necessary to optimise the achievement of the intended outcomes
 - Developing the partnership's capacity, including the capability of its leadership and the individuals within it
 - Managing risks and performance through robust internal control and strong public financial management
 - Implementing good practices in transparency, reporting, and audit to deliver effective accountability

2022 Partnership Governance Register and improvement activity update

9. Within the first annual assurance report on Partnerships governance in September 2022, a number of activities were outlined for delivery in the following year to strengthen the governance of four partnerships. The table below provides an update on that activity (excluding one action which is set out in the table in paragraph 11 as it was not due for delivery until December 2023).

Partnership	Issue	Completed activity
South Tees Health and Wellbeing Board	There are currently no Key Performance Indicators (KPIs) in place to measure delivery of the current overarching strategy although longer term targets exist and there are detailed metrics to measure delivery of supporting strategies	Action due to be delivered in December 2023. See 2023 activity for update on delivery.
Middlesbrough Community Safety Partnership	Performance metrics are in place however only 50% of them are on target, therefore this has been identified as amber because of performance however a number of metrics are not within the direct control of the partnership	A review of KPIs was completed as part of the planned refresh of the Community Safety Plan.
Middlesbrough Children's Trust	KPIs to measure impact have started to be developed	KPIs and performance management framework put in place for the partnership.
Middlesbrough Children's Improvement Board	KPIs are in place and performance is at 90% which is the target, however the board was assessed as amber because it is in place as a result of OFSTED determining that Children's services in Middlesbrough were inadequate in 2019	The service has continued to deliver improvements and the latest OFSTED inspection resulted in an improved outcome of 'Requires improvement'.
South Tees Safeguarding Children's Partnership	There are currently no KPIs in place to measure performance across the statutory partners, although the Council has performance monitors its work in relation to this area.	Development of arrangements to set out how the statutory partners will work together to identify and respond to the needs of children in the area and how the effectiveness of this work will be measured.
North East Procurement Organisation (NEPO)	Although there is a business plan in place and the financial savings achieved from being within the partnership are kept under review, there is no wider set of KPIs in place to assess it.	This action will be completed when the annual assurance report on procurement activity is considered.

Partnership	Issue	Completed activity
		at the December 2023 meeting of Audit Committee. The action is to embed within the next annual assurance report on procurement to Audit Committee to set out the positive impact of membership of NEPO and explore creation of a performance data set with NEPO.

2023 Partnership Governance Register:

10. Lead officers have completed a self-assessment for each of the 13 significant partnerships that existed during 2022/23, which have been assessed as follows:

Name of partnership or separate legal entity	Statutory	Significant	Governance	Performance
Tees Valley Combined Authority (TVCA)	Yes	Yes	Green	Green
River Tees Port Health Authority Board	Yes	Yes	Green	Green
South Tees Health and Wellbeing Board	Yes	Yes	Green	Green
North East Migration Partnership	No	Yes	Amber	Green
Middlesbrough Community Safety Partnership	Yes	Yes	Green	Green
Middlesbrough Children's Trust	No	Yes	Green	Amber
Childrens Services Executive Improvement Board	No	Yes	Green	Amber
South Tees Safeguarding Children's Partnership	Yes	Yes	Green	Green
Teeswide Safeguarding Adults Board	Yes	Yes	Green	Green
Middlesbrough Environment City Trust Limited	No	No	Green	Green
North East Procurement Organisation (NEPO)	No	Yes	Green	Green
Cleveland Local Resilience Forum (LRF)	Yes	Yes	Green	Green
Youth Offending Executive Management Board	Yes	Yes	Green	Green

2023/4 improvement activity

11. While partnerships are assessed as being generally in a sound state by the lead officers who self-assessed compliance with governance standards, some marked performance as amber where outcomes are less able to be articulated or because performance is below target / below national average. The position in relation to each of the partnerships identified as amber for performance and planned actions to address that status are set out below. All four were also identified as amber when last reported to this committee in September 2022. The table below also contains an update on the planned actions that were to be delivered during 2023/4:

Partnership	Issue	Planned action	Target date	LMT lead
South Tees Health and Wellbeing Board	There are currently no Key Performance Indicators (KPIs) in place to measure delivery of the current overarching strategy although longer term	This is a significant piece of work which commenced in 2022 as a planned action with the target date of December	December 2023	South Tees Joint Director of Public Health/South Tees Integration Programme Manager

Partnership	Issue	Planned action	Target date	LMT lead
	targets exist and there are detailed metrics to measure delivery of supporting strategies	2023 put in place at that time. Work is ongoing to ensure the planned refresh of the overarching South Tees Strategy in 2023 includes a supporting performance management framework will be development to measure the effectiveness of actions to address health inequalities.		
North East Migration Partnership	The partnership has had some capacity issues during 2022/23 and is also continuing to improve its governance arrangements.	Code of Conduct will be developed & additional staffing to add capacity around data and governance improvements	31/12/2023	Director of Environment and Communities
Middlesbrough Children's Trust	KPIs to measure impact have started to be developed	The Partnership are currently in the process of developing a new set of priorities. The previous 3 priorities are operated as BAU.	Complete	Director of Education and Partnerships/Head of Partnerships
Middlesbrough Children's Improvement Board	KPIs are in place and performance is at 90% which is the target, however the board was assessed as amber because it is in place as a result of OFSTED determining that Children's services in Middlesbrough require improvement issued March 2023.	Continue to deliver activities to further improve practice to move the Council out of intervention.	Ongoing	Director of Children's Services

12. During 2024, the Council's Partnership Governance Policy will be refreshed to ensure it aligns with a forthcoming Partnerships Strategy that will be developed to support delivery of the Council's transformation agenda in order to ensure the Council is working effectively with partners to maximise impact on the priorities of the town, as set out in the forthcoming Council Plan.

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

13. Not applicable.

Impact(s) of the recommended decision(s)

Financial

14. It is anticipated that all activities set out in this report are achievable within existing and planned budgets.

Legal

15. The proposed activity is consistent with and will promote the achievement of the Council’s legal duty to achieve Best Value.

Risk

16. This report highlights current compliance with the Partnership Governance policy and planned actions to improve partnership governance. If delivered successfully this will have a positive impact on the following risk:

- If the **Council and its partners do not have the collective capacity to deliver system wide change to key issues** such as public health, crime and safeguarding, then this could result in the population’s health, wellbeing and safety declining.

Human Rights, Public Sector Equality Duty and Community Cohesion

17. There are no concerns that this report could have an adverse impact on these rights.

Climate Change / Environmental

18. There are no concerns that this report, which is for information only, could have an impact on this.

Children and Young People Cared for by the Authority and Care Leavers

19. There are no concerns that this report, which is for information only, could have an impact on this.

Data Protection / GDPR

20. There are no concerns that this report, which is for information only, could have an impact on this.

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

Action	Responsible Officer	Deadline
Delivery of planned activity for 2023 set out in the body of the report	Various	Various

Background papers

Body	Report title	Date
Executive	Delivering the Strategic Plan	18 February 2020
Corporate Affairs and Audit Committee	Partnership Governance Annual Assurance report	23 September 2023

Contact: Ann-Marie Johnstone, Head of Governance, Information and Policy
Email: anmarie_johnstone@middlesbrough.gov.uk

MIDDLESBROUGH COUNCIL	
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Report of:	Director of Finance
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Submitted to:	Audit Committee
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Date:	14 December 2023
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Title:	Procurement Assurance report 2022/2023
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Report for:	Information
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Status:	Public
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Strategic priority:	All
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Key decision:	No
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Why:	Report is for information only
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Subject to call in?:	No
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Why:	
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Proposed decision(s)

Executive summary

This report provides the Audit Committee with an annual overview of procurement activity undertaken for financial year 2022/23. The report includes information pertaining to:

- Procurement Activity
- Purchase Card utilisation
- Supplier Incentive Programme
- North East Procurement Organisation (NEPO)

1. Purpose

To provide a summary of the Council's procurement activity over the last financial year including compliance with Standing Orders, practice changes and contract awards.

2. Recommendations

That the Audit Committee

- Note the content of this report

3. Rationale for the recommended decision(s)

- To receive assurance that the Council has in place the Contract Procedure Rules as part of the Council's Constitution, and these provide the governance in respect of procurement practices.

4. Background and relevant information

The table below shows the financial thresholds as of 1st April 2022 to 31st March 2023, which all procurement activity within that time frame was required to adhere to:

WORKS	GOODS/ SERVICES/ CONSULTANTS	LIGHT TOUCH REGIME	TENDERING PROCEDURE
Up to £10,000	Up to £10,000	Up to £10,000	Neither written quotations nor tenders need to be invited. Ensure value for money is achieved using local suppliers where possible.
£10,001 - £1,000,000	£10,001 - £213,477 (inclusive of VAT) £177,897.50 (exclusive of VAT)	£10,001 - £633,540 (inclusive of VAT) £552,950 (exclusive of VAT)	At least 3 written quotations. The quotation system must be used for quotations. Use local suppliers where possible. Tenders can be sought but this is optional.
£1,000,001 - £5,336,937 (inclusive of VAT) £4,447,447.50 (exclusive of VAT)	N/A	N/A	At least 4 tenders must be sought. The Tender advert(s) must be placed on Contracts Finder. The NEPO portal must be used.
Above £5,336,937 (inclusive of VAT) £4,447,447.50 (exclusive of VAT)	Above £213,477 (inclusive of VAT) £177,897.50 (exclusive of VAT)	Above £633,540 (inclusive of VAT) £552,950 (exclusive of VAT)	EU Procedure - OJEU Notice. At least 5 tenders must be sought, ensuring that the tender process complies with the EU Directives. The NEPO portal must be used.

During 1st April 2022 to 31st March 2023 the Procurement Team have been involved and supported service areas with **240** procurement activities that equate to approximately £99,865,680 worth of contracts being awarded in the year.

This activity is broken down into the as follows:

- 71 - Quotations
- 15 - Tenders
- 37 - Exemptions
- 57 - Dynamic Purchasing System (DPS) further competitions
- 60 - Direct Awards/Further Competitions via Framework Agreements

Quotations are the procurement route used for low value contracts and as they do not require open advert it offers us the flexibility to target local suppliers where available. There is no reason a quotation could not be formally advertised where it was believed to be in the best interest, or where the work is specialist and national providers need to be engaged, however quotes primarily allow us to direct opportunities to local suppliers.

Tenders and Dynamic Purchasing Systems (DPS) are formal procurement processes that must adhere to the Public Contract Regulations (PCR) 2015 which is procurement law which prescribes the process to be followed from advert all the way through to contract award. The DPS route is used for Integrated Transport Unit whom utilise the system to post mini competitions for home to school transport routes.

Exemptions allow us to direct award where the contract is below the Public Contract Regulations threshold, and it meets the criteria of Section 5 of the Council's Standing Orders. The council has a clear process for approval of exemptions.

Direct Awards/Further Competitions via Framework Agreements are again compliant with PCR as the Framework Agreement will have been formally procured and the Framework Agreement will set our process for call off either via Direct Award or a further competition.

There are currently over 400 active contracts recorded on our contract register, which is available to the public.

4.1 North East Procurement Organisation

The North East Procurement Organisation (NEPO) is an established public sector procurement organisation that works in partnership with all 12 North East Councils and the wider public sector to procure goods, services and works of high value and strategic importance. The 12 authorities collectively oversee the governance framework for NEPO.

The Specialist Commissioning & Procurement Manager represents Middlesbrough Council by attending the Collaboration North East (CNE) monthly meetings together with the other 11 North East Local Authorities Heads of Procurement, discussion centre around the business of the Procurement Organisation and the procurement requirements of the public sector.

As a full member to NEPO Middlesbrough Council pay a small member fee, the annual fee is £46,000 however in return we receive a rebate of approximately £140,000k per annum due to our use of the flexible procurement solutions available through membership of the organisation, The benefits of the NEPO membership are that it provides us an income in excess of cost, but also reduces pressure on our procurement team in providing us with

procurement solutions such as frameworks that we can either call off via a mini competition or via direct award. The benefits of being a full member of NEPO are:

- Provision of flexible procurement solutions for the local authority to utilise
- Use of the above solutions minimise time delay for the authority in its procurement practices
- Specialist procurement leads within NEPO have worked with sectors such as energy, fleet, construction etc to set up cost effective solutions for local authorities to utilise – utilising the collective buying power of the 12 north east authorities
- Any concerns with large scale providers can be addressed by NEPO contract support.

In 2022/23, 25% of our procurement solutions utilised NEPO framework arrangements, without this investment would be required within the procurement team to meet the demands of the procurement activity of the local authority.

Middlesbrough Council has annual conversations with NEPO to review the available frameworks and discuss opportunities for future commissioning plans.

In addition to procurement solutions NEPO manage and deliver our e-tendering portal and work is just nearing completion of the introduction of a new dynamic portal called Open which will be rolled out in early 2024 to all 12 members. This has been a significant project led by NEPO and the Local Authorities in trying to develop a unique and innovative e-tendering system that can support the entire commissioning process. It is essential that all authorities operate the same processes to mitigate impacts of procurement on the suppliers across the North East. Consistency in approach ensures they are more cost effective within their bidding and costing processes.

Further work with NEPO is progressing in regard to the introduction of North East Social Value TOMs (themes, outcomes, measures) . Middlesbrough Council already has social value within its procurement practice however work is being undertaken to strengthen this aspect of procurement for 2024/25.

4.2 Purchase Cards

Middlesbrough Council requested an audit of purchasing cards as part of Internal Audit programme of assurance. This was requested as monitoring of spend is undertaken within Directorates and assurance was required regarding the sufficiency of the processes for review and monitoring of transactions, and use of the cards. Internal Audit have given limited assurance regarding the utilisation of purchase cards, the detailed findings are published within the Internal Audit report and highlight a number of areas of concern, including non recording of VAT, processes linked to reviewing and approving spend, the lack of quality descriptors for the spend and required updates to policy. Linked to the internal audit report on the use of purchase cards a programme of improvement activity is currently being rolled out in quarter 3 of 23/24, to amend the practice linked to purchase card activity. Historically purchase cards were considered to be one of the primary mechanisms for payment as they reduced the administrative and cost burden of processing invoices and were a solution that met the requirements across a number of Directorates. Following the recent review from internal audit, along with the communication

of reducing all non-essential spend, the strategic direction is now to reduce and review levels of spending associated with purchase cards. Furthermore with the introduction of the Supplier Incentive programme, expenditure should be routed through formalised channels in Business World in order to maximise the opportunities SIP presents and support suppliers engaging with this scheme.

As a result the following programme of activities are currently being progressed:

- Business World is being promoted as the primary mechanism for payments
- Directors asked to confirm cardholders in each directorate, making assessments as to the essential users across their services and documenting reasons why posts require access to purchase cards.
- Cardholders no longer requiring a card have been notified and the card has been cancelled
- Cardholders that are keeping their card or getting a card have been contacted to confirm this, advised of their spending limits and requested to attend mandatory training – children's has been the priority.
- Cardholders that are currently not at work have had their cards set to £0 so no spend can occur
- Purchasing Card Policy has been updated
- Intranet content review and guidance documents all updated
- Processes introduced for fraudulent spends which will now be investigated by the procurement team and will be notified to Internal Audit
- Monthly spends to Directors for review with their management teams and understanding of spend activity. Discussions are held at monthly budget clinics
- Commissioning & Procurement Team working with Data Team to introduce a data dashboard for purchasing card spend in order to provide weekly reporting digitally to all Directors
- Review of RBS system and mandatory fields for review which will be updated in January 24 to make more fields mandatory which will include VAT Amount Rate, Expense Description, Additional Information, Receipt held, Receipt Scanned

This work is outlined within the action plan for the section 24 recommendations. Internal Audit were asked in direct response to their findings to do further investigations regarding any potential fraud, as a result Internal Audit reported that there are no resulting fraud investigation concerns linked to the work they appraised.

Currently the number of cards are being reduced from 313 to 171, and this will be kept under review.

During 2022/23 the Council spent £7,938,163 via purchasing cards which was 23,119 transactions. The majority of spend was low value with 16,856 (73%) being below £99, 5,571 (24%) were £100 to £1,000 and 692 (3%) were over £1,000.

The table in Appendix 2 provides the detailed breakdown of spend by Directorate each month. Adult Social care has the highest level of spend on purchase cards, the majority of this spend is the purchase of equipment for Tees Community Equipment Services. Tenders and quotations are fully undertaken for this service, however a strategic decision was taken previously to pay for goods on purchase cards to maximise the level of rebate received. Work has subsequently been undertaken to engage these suppliers into the SIP

programme and as a result the spend will be routed through business world, with a target date of March 2024. Details are also provided in Appendix 2 outlining the top 3 categories of spend by each Directorate.

Rebates for the cards are paid annually each year and are based on spend activity between 1st December to 30th November, rebate received is £60k.

In line with the purchasing card policy staff are responsible for reviewing all spend on their card by the 28th of each month which includes providing the receipt, detail of expenditure, cost centre and GL codes. Processes are in place whereby staff whom fail to follow due process on three occasions or more will have their cards removed.

Managers with staff who have cards are also responsible for monitoring spend and the team continue to share monthly reporting and management of cardholders in line with the Council's policies.

It is acknowledged that the council does require purchase cards for some aspects of transactional activity however review work continues to close down channels of spend and merchant categories to ensure spend and transactions on cards meet the strategic aims.

4.3 Supplier Incentive Programme

The Supplier Incentive Programme (SIP) with Oxygen Finance is an early payment programme which gives suppliers the opportunity to be paid earlier than standard practice. The programme gives suppliers the option to be paid as soon as the invoice is authorised. The aim is to complete this within 10 days, normally payment term is 30 days. Suppliers pay a small pre-agreed rebate which is applied as the invoice is paid. The rebate is proportionate to the number of days the authority accelerates the payment by. The rebate is only applied if the invoice is paid earlier than 30 days. The SIP programme has been operational since May 2022 and the Council has achieved savings of over £25k to date.

Suppliers are onboarded to the programme via two main methods (sourcing via procurement and direct engagement with suppliers). Where SIP has been included within a tender, 68% of the winning bidders have opted into the SIP. This is a very positive figure and higher than average across councils operating an early payment programme.

During the tender process, suppliers can onboard all their spend with the Council, maximising their cash flow and delivering additional rebate back to the council.

A SIP Officer has recently been appointed to further promote SIP with suppliers and maximise the efficiency of the programme through additional and targeted engagement.

Over the last year, the scope of the programme has increased to include Care (excluding Adults Residential) and this has immediately become the category with the biggest appetite amongst suppliers, therefore driving the most earnings. It is now targeting the construction sector.

As part of SIP we have Free Pay which allows the Council to identify and pay early without rebate to support our SME (small & medium sized enterprises) market and attached as Appendix 1 is a summary of Free Pay performance in the current year.

SME suppliers do not know they are benefiting from SIP but as a Council we know how beneficial this is to the SME market in these times of financial constraints. The list of Free Pay suppliers is reviewed regularly to ensure only eligible suppliers are included.

4.4 Local Spend

Middlesbrough Council has a strategic direction for ensuring spend remains local and this is monitored quarterly. The quotation process allows for more targeting spend to local suppliers and practice linked to quotations is encouraged to ensure suppliers that are local and offer value for money are requested to quote. The local spend continues to be monitored and a summary of the percentage performance of local spend during 2022/23 is shown below:

PERIOD	TARGET	ACHIEVED	SPEND
April – June 2022	40%	42.0%	£25m
July – September 2022	40%	36.9%	£28m
October – December 2022	40%	39.1%	£28m
January – March 2023	40%	40.0%	£27m

The overall performance for 2022/23 was 39.5% which is slightly below the target of 40%.

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

There are no other alternatives for consideration

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

6.1 Financial (including procurement and Social Value)

Within Middlesbrough Council’s constitution, the regulations pertaining to contracts are outlined within the Contract Procedure Rules. Staff are required to adhere to the contract procedures pertaining to any procurement activity, and flow charts and threshold tables were provided on the staff intranet as easy reference guides. Any activity linked to grant income is exempt from procurement processes if detailed within the grant conditions attached to the funding.

6.2 Legal

All contracts are required to be approved and signed by legal services.

6.3 Risk

Internal audit have issued limited assurance in regard to the utilisation of purchase cards in 2023/24. The work highlighted the requirement to maximise VAT, and provide tighter controls and monitoring on expenditure across Directorates. Work has commenced in regard to managing the issues identified.

6.4 Human Rights, Public Sector Equality Duty and Community Cohesion

There are no human rights, equality or data protection issues arising as a result of the recommendations in this report.

6.5 Climate Change / Environmental

There are no Climate Change / Environmental issues arising as a result of the recommendations in this report.

5.6 Children and Young People Cared for by the Authority and Care Leavers

There are no issues relating to Children and Young People cared for by the authority and care leavers arising as a result of the recommendations in this report.

5.6 Data Protection / GDPR

There are clear processes linked to data protection and GDPR within procurement guidelines and practices.

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

Action	Responsible Officer	Deadline
Undertake purchase card review project	Louise Grabham	31 st December 2023

Appendices

1	Free Pay Performance
2	Purchase Card Data 2022/23

Background papers

Body	Report title	Date
none		

Contact: Louise Grabham
Email: louise_grabham@middlesbrough.gov.uk

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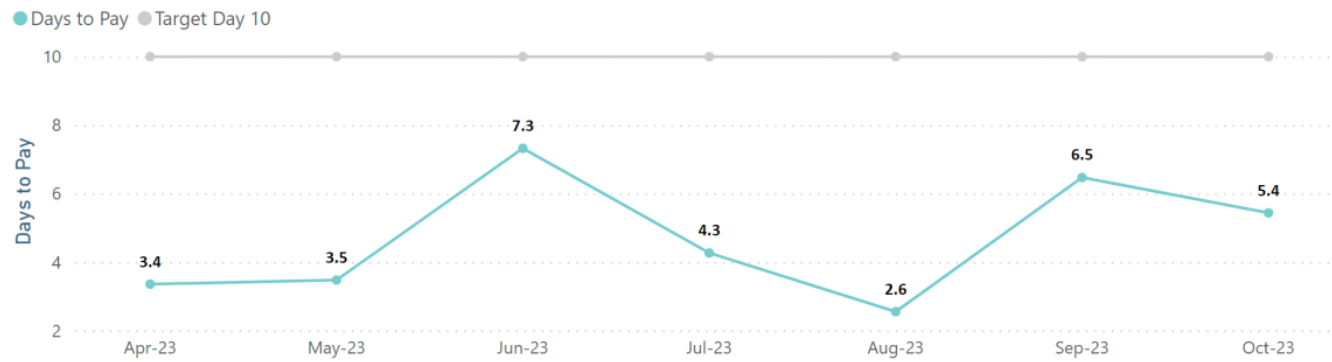
Summary of Free Pay Performance

FreePay

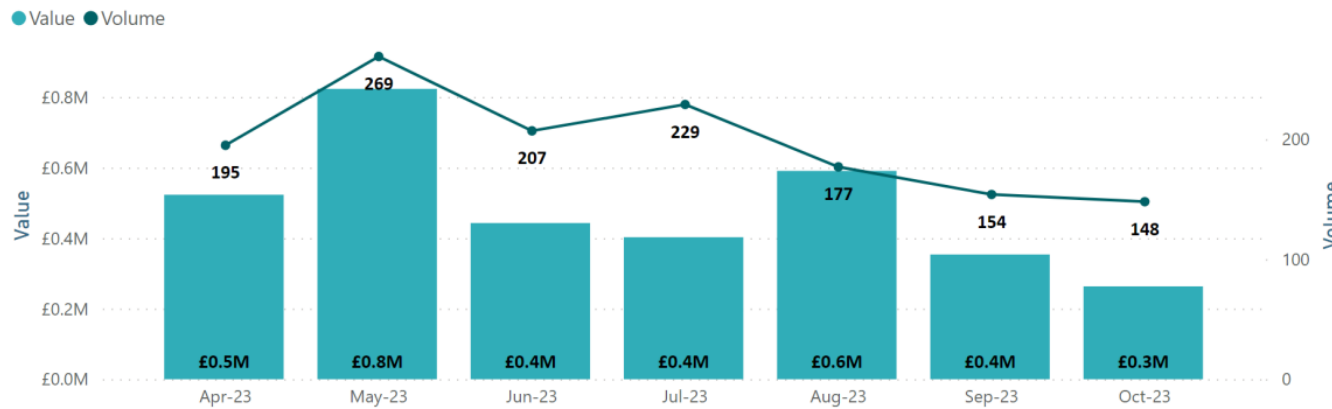


- Total Signed Suppliers Value
£4.4M
- Total Signed Suppliers Volume
274
- WA Days to Pay FYD
4.4
- Total Volume of Invoices FYD
1379
- Total Value of Invoices FYD
£3.4M

FreePay Days to Pay FYD



FreePay Value and Volume FYD



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Purchase Card Data 2022/2023

Spend by Directorate for each month:

2022/2023	Regeneration	Public Health	Legal & Governance	Childrens	Environmental Services	Finance	Adults
April	32,396	4,191	6,332	71,138	124,117	4,779	369,133
May	34,437	4,283	8,325	98,014	174,484	50	216,921
June	25,565	1,107	10,870	100,039	107,887	280	472,900
July	30,242	5,500	5,237	160,400	128,551	245	242,654
August	27,892	1,897	17,906	66,010	188,858	96	430,933
September	40,106	1,901	7,211	115,597	160,045	671	498,515
October	30,096	3,729	12,592	95,152	190,681	87	149,966
November	37,098	2,743	15,726	96,027	163,475	180	489,047
December	32,922	1,118	4,923	87,421	99,546	58	408,366
January	17,760	856	6,821	94,460	87,119	0	440,957
February	21,427	1,347	5,973	62,169	86,798	12	401,288
March	37,281	2,079	7,394	108,053	91,681	1,834	503,186
Total	367,222	30,751	109,310	1,154,480	1,603,242	8,292	4,624,866

Total spend £7,938,163

Top Categories of spend by Directorate:

Regeneration-	Grocery & retail (culture), Professional services, Advertising & Marketing
Public Health-	Emergency Provisions, Vehicle maintenance
Legal & Governance-	Stationary, Professional services, ICT
Childrens-	Provisions for Childrens Homes , Accommodation, Travel
Environmental Services-	Equipment. Materials, PPE
Finance -	Accommodation, Travel, professional services
Adults-	Equipment, Accommodation, Goods & Materials

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Purchasing Cards (Children's Services)

Middlesbrough Council

Internal Audit Report

Page 95

Business Unit: Finance
Responsible Officer: Director of Finance
Service Manager: Head of Strategic commissioning and Procurement
Date Issued: 25 October 2023
Status: Final
Reference: D1060/002

	P1	P2	P3
Actions	4	8	2
Overall Audit Opinion	Limited Assurance		

Summary and Overall Conclusions

Introduction

Purchasing cards are a corporate credit card issued to employees who can then acquire goods and services. There are a number of benefits from using the cards both in relation to reducing the number of purchase orders raised and supplier invoices having to be processed, to offering a more flexible procurement route. Cards are generally intended to be used in areas where it is not possible, or effective, to use the standard purchasing system or for low level transactions where card purchases are more efficient.

Care must be taken to ensure cards are used correctly for their intended purpose and must not circumvent proper purchasing practice or contractual arrangements. A reconciliation process must take place to ensure the bank statement matches the payments that have been made on the card and to provide some retrospective and independent check on purchases made. VAT receipts or invoices must be obtained for all purchases, including online purchases. This is to ensure the council may claim back VAT from HMRC and also for HMRC VAT inspections.

The Council currently has 286 active purchasing cards, of which 80 are allocated within the Children's Services directorate. Between April 2022 and August 2023 total purchasing card expenditure across all directorates totalled £10,515,390.16, of which £801,880.58 was spent within Children's Services.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensures that:

- Purchasing cards are being used correctly in line with policy and do not circumvent proper purchasing practice.
- Purchasing card usage is monitored, and expenditure is reviewed within the required timescales.
- Valid VAT receipts/invoices are obtained for all relevant purchases where VAT is reclaimed.

The audit reviewed purchasing card usage within Children's Services, excluding schools, for the period April 2022 to August 2023.

Key Findings

The main issue requiring management attention is that VAT is not being consistently recorded on the purchasing card system and therefore not subsequently reclaimed by the Council, resulting in a loss of income which we estimate at £125k for Children's Services between April 2022 and August 2023. We noted inconsistencies in the recording of VAT on card purchases, in terms of it being selectively recorded when comparing multiple transactions from the same provider and for the same categories of spend. We raised this issue with the Council's VAT officer, who confirmed that she shares the same concerns regarding cardholders not consistently recording VAT on the purchasing card system. We tested a number of transactions that contained a VAT element found that an itemised VAT invoice or receipt

was not always attached. This is not in line with the requirements of the purchasing card policy and could potentially put the Council in breach of its HMRC requirements.

We undertook a range of analysis on purchasing card transactions within Children's Services covering the period April 2022 to August 2023. Detailed results of this testing can be found in the findings section of this report, but in summary we identified various areas of non-compliance with the requirements of the Council's purchasing card policy. These included issues relating to the reviewing and approving of purchasing card transactions, the requirement to provide descriptions and supporting invoices or receipts for spend incurred, evidence of purchases being split into multiple transactions to avoid line manager approval requirements, and non-compliance with the Council's policy for procuring air travel using a purchasing card.

We obtained details of the spending limits on all cards currently issued within Children's Services. Our testing of these noted a number of issues including discrepancies between the information held by the purchasing team and that held on the RBS system, and also the fact that some cards had an increased limit that was not required. Cards with limits in excess of the default £1k would benefit from being periodically reviewed in order to establish if the increased limit continues to be appropriate.

Our work identified a small number of employees who, according to the evidence provided to us, have the ability to both review and approve their own spend, which creates a risk of fraudulent purchases going undetected. Although the identified instances were small and no indication of inappropriate purchases were noted, management should review how this situation was able to occur with a view to preventing any similar situations in future.

Children's homes are by far the biggest spending area within Children's Services, and we noted that this is the area that submit the most claims that do not contain a description of the spend incurred. We also noted that several refunded transactions have a description that they were fraudulent. It would be beneficial for management to review instances of refunds to identify instances where potentially fraudulent purchases have been attempted.

Purchasing card guidance documents are available on the Council's intranet site for both cardholders and line managers with responsibility for reviewing spend. Our review of these documents did not note any out-of-date information; however some documents have not been reviewed for almost 2 years, and some are undated meaning we were unable to confirm when they were produced. The available guidance would benefit from being subject to a review process in order to ensure that any future changes in process are reflected in the guidance available to staff.

Overall Conclusions

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. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

1 recording and reclaiming of VAT

Issue/Control Weakness

VAT is not being recorded on the RBS system in all instances where it could be, in order to maximise the money that the Council can claim back.

Copies of VAT invoices/receipts are not always being provided to support the claiming of VAT.

Risk

The Council does not reclaim the full amount of VAT that it is entitled to, resulting in financial loss and increased budgetary pressures.

Not providing supporting VAT evidence also puts the Council in breach of its HMRC requirements.

Findings

VAT regulations allow for councils to reclaim VAT incurred on costs that relate to their non-business activities. The Council currently claims between £12m and £15m in VAT per year. The Council's purchasing card policy states that cardholders must review all transactions and upload a valid VAT invoice or receipt to the purchasing card system where appropriate, in order to comply with HMRC requirements for reclaiming VAT.

A review of Children's Services purchasing card transactions for between April 2022 and August 2023 highlighted that VAT is being recorded selectively for suppliers and purchasing categories where VAT can be claimed. For example:

- There are 599 transactions relating to Amazon purchases, of which 442 have VAT recorded against them whilst 157 do not
- There are 144 transactions relating to Booking.com, of which 48 have VAT recorded against them whilst 96 do not
- There are 80 transactions categorised as 'electronic sales', of which 40 have VAT recorded against them, whilst 40 do not
- There are 42 transactions categorised as 'Limousines and taxi's', of which ' , of which 13 have VAT recorded against them, whilst 29 do not.

Although the above data does not constitute a comprehensive review of the whole population of purchasing card transactions for the period reviewed, it demonstrates that VAT is not being claimed for purchases where it should be. The data provided to us shows that there is approximately £629k of transactions with no VAT recorded within Children's Services, which would equate to roughly £125k in unclaimed VAT. This figure is an estimate but is indicative of the fact that the Council is likely to be missing out on a sizable amount of VAT that could be reclaimed. Discussions with the Council's VAT officer also confirmed that she has concerns about the issue of VAT not being claimed in all cases where it could be, and that there is an intention to discuss this issue with senior management.

In addition to the above, we reviewed a sample of 20 transactions where VAT has been claimed, and found that 9 did not have a

supporting invoice or receipt attached. This totalled £345.25 left unclaimed by the transactions included in the sample. From the purchasing card data provided to us for the period April 2022 to August 2023, there are 1,134 transactions where VAT has been claimed, but no receipt has been uploaded to the RBS system.

Agreed Action 1.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled.

Priority	1
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	31st October 2023

Agreed Action 1.2

Individuals granted authorisation to hold a card will have 1-1 training with regard to the card process, including the essential element of VAT and the requirement to attach a receipt. The training will also include the how and when transactions should be reviewed, the need to include a full description of spend, and direction not to split transactions in order to avoid the need for transactions to be approved by a line manager.

Priority	1
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	30 th November 2023

Agreed Action 1.3

In exceptional circumstances where a receipt is not available the purchase must be approved by a line manager, with a documented reason why no receipt is available.

Priority	1
Responsible Officer	Director of Children's Care
Timescale	30 th November 2023

Agreed Action 1.4

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements.

Priority

1

Responsible Officer

Director of Children's Care

Timescale

30th November 2023

2 Compliance with Council policy relating to flight purchases

Issue/Control Weakness

No evidence is available to demonstrate that the purchasing of flights using a purchasing card provided better value than using the Council's centralised travel bureau.

Risk

Additional budgetary pressures incurred due to best value not being obtained.

Findings

The Council has a policy document detailing the procedure for paying for flights on a purchasing card. The policy details the requirement from cardholders to consider all methods of purchases and opt for the best-value option, and to obtain approval from an executive or assistant directorate level, regardless of the total spend. The transaction list of Children's services spend for 2022/23, contained the following:

- Three one-way tickets to Nigeria with British Airways, totalling £1,473.43

The payment consisted of 3 separate transactions:

- One-way ticket to Nigeria with British Airways, £437.81
- One-way ticket to Nigeria with British Airways, £597.81
- One-way ticket to Nigeria with British Airways, £437.81

Evidence was obtained to demonstrate that the appropriate authorisations had been obtained prior to the tickets being purchased; however there was no evidence that the use of the purchasing card provided best value, in terms of whether it would have been more cost-effective to make the purchases via the Council's centralised travel bureau.

Agreed Action 2.1

Travel bookings will be routed through the centralised travel bureau, purchasing cards will only be utilised for exceptional travel arrangements when the travel bureau is unable to support. In all circumstances, irrespective of spend, transactions related to travel will be authorised by the line manager.

Priority

2

Responsible Officer

Director of Children's Care

Timescale

31st October 2023

3 Review and approval of purchasing card spend

Issue/Control Weakness

There is evidence of non-compliance with the requirements to review and approve purchasing card spend.

Risk

Unreviewed and unapproved transactions enable inappropriate or fraudulent purchasing activity to go undetected.

Findings

The Council's purchasing card guidance states that cardholders must review all their transactions by the 28th of each month on the RBS site. Furthermore, it says that when transactions are not reviewed, this puts the Council at risk, not only in relation to potential fraudulent activity but also the potential loss of VAT which could be reclaimed. The purchasing card guidance requires line managers to approve any transactions in excess of £1k.

Using IDEA data analysis software, a review was undertaken of purchasing card transactions relating to Children's Services between April 2022 and August 2023. The following results were obtained:

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- 791 transactions totalling £82,172.20 not reviewed out of a total of 12,223 transactions totalling £1,156,902.54. This equates to 6.5% not reviewed.
- The 2 highest areas in terms of unreviewed spend are Strategic Services (36.37%), and Children's homes (13.6%).
- There were 35 payments in excess of £1k in the period under review (out of a population of 105 payments) that had not been approved by a line manager, which equates to a non-approval rate of 33%.

We discussed the approval process with line managers in order to establish their awareness of the responsibility to approve such payments, and whether they challenge questionable or unclear spend. 18 out of 33 managers responded to our request for information and in general they provided satisfactory answers to the questions asked. However, there were differing approaches as to when they would approve purchasing card spend – one manager stated that they believed there was a previous requirement for approval of spend over £200, which they believed had since changed to every purchase requiring authorisation. Another manager stated that they approve any spend in excess of £500. Additionally, our review of all transactions identified that, out of 12,223 total transactions, 2,310 had been approved by a line manager even though they were below the £1k threshold which requires line manager approval.

The above finding demonstrates that the Council's review and approval process is not fully understood and not being fully complied with by cardholders and line managers.

Agreed Action 3.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 3.2

Individuals granted authorisation to hold a card and their line manager, will have 1-1 training with regard to the card process, including when & how the transactions should be reviewed. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 3.3

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

4 The provision of descriptions and supporting evidence for purchasing card transactions

Issue/Control Weakness

The requirement to provide descriptions of purchasing card spend and supporting receipts are not being complied with.

Risk

Inadequate descriptions on transactions prevent items from becoming identifiable and justifying their benefit to the Council.

Findings

The Council's purchasing card guidance states that every transaction requires a brief description of the spend to identify what the item purchased is, indicating its purpose to the Council. This assists line managers (or anyone else reviewing purchasing card transactions) to identify the nature and suitability of the purchase. The guidance also states that there is a requirement to attach a receipt, invoice or other evidence, to support the spend.

Using IDEA data analysis software, a review was undertaken of purchasing card transactions relating to Children's Services for 2022/23. The following results were obtained:

- 3,475 transactions out of a total population of 12,223 have no description to support the purchase (28.4%). We undertook sample testing in specific areas of spend:
 1. Food purchases - 9 transactions out of 20 did not contain a supporting description
 2. Amazon purchases - 10 transactions out of 20 did not contain a supporting description.
 3. Spend on taxis - 18 transactions out of 20 did not contain a description as to the nature of the journey.
 4. Fir Tree children's home - £1,614.49 across 20 transactions, all with suitable descriptions describing item and purpose.

However, a further review of transactions relating to children's homes found that they submit the most claims that do not have a description of the spend that has been incurred.

In addition, 4,067 transactions out of 12,223 (33.3%) did not have a supporting invoice or receipt uploaded to the RBS system.

There are 773 transactions totalling £78,868.15 that contain no description, have no supporting receipt or invoice uploaded to the RBS system, and have not been reviewed by the cardholder or approved by the line manager (as all but 5 transactions are below the £1k approval threshold).

Agreed Action 4.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 4.2

Individuals granted authorisation to hold a card will have 1-1 training with regard to the card process, including the requirement to include a full description of spend. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 4.3

Work will be undertaken with the bank (RBS) to ascertain if the description can be made mandatory.

Priority	2
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	31st October 2023

Agreed Action 4.4

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A

5 Card spending limits

Issue/Control Weakness

Purchasing card spending limits are not being reviewed in order to establish if limits in excess of the default £1k limit are appropriate.

Risk

Excessive card spending limits increase the chance of fraudulent transactions taking place.

Findings

The standard spending limit for a Council purchasing card is £1k per individual transaction inclusive of VAT. This limit can be increased up to £5k with written approval from the Head of Service and over £5k with authorisation from the relevant Director.

A report was obtained detailing the current spending limits on all cards. A sample of 10 cards with a spending limit in excess of £1k was reviewed, in order to establish if the appropriate authorisation had been received. From the sample of 10 we found:

- 2 instances where records held by procurement did not reflect the actual card limit in place.
- 1 instance was found where it was felt by the Specialist Commissioning & Procurement Senior Manager that it would be appropriate for a £12k card limit to be moved back to down to the default £1k limit as the £12k limit was approved for a specific purchase, and is now no longer appropriate.
- 1 instance where a card has a limit of £35k but no record can be found in terms of the card limit being approved or reviewed since it was originally agreed.
- 1 instance where a card has a £50k but no evidence of who approved this or whether it has since been reviewed for appropriateness.
- 1 instance where a card had its limit temporarily increased to £15k but this had not been reduced back down to £1k. We have not been provided with details of when the temporary increase was supposed to end.

Currently there is no regular review of card spending limits undertaken, in order to identify and challenge excessive spending limits, or to ensure that temporary increases in spending limits have been reduced back down to the default £1k limit.

Agreed Action 5.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1,

Priority

N/A

Responsible Officer

N/A

no further action needs to be agreed here.

Timescale

N/A

Agreed Action 5.2

Individual limits per transaction and total monthly spend limits will be set for each cardholder. Any deviation from this will be actioned on a temporary basis with documented approval for the Head of Service, and actioned for a maximum of 24 hours.

Priority

2

Responsible Officer

Director of Children's Care

Timescale

31st October 2023

Agreed Action 5.3

Where a permanent change is required then a business case evidencing the service need will be required signed off by the relevant Director and the S151 officer or their deputy.

Priority

2

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

31st October 2023

6 Separation of responsibilities for reviewing and approving spend

Issue/Control Weakness

There are instances where cardholders have reviewed and approved their own spend.

Risk

No oversight of an employee's purchasing card spend increases the chance of fraudulent purchases going undetected.

Findings

The Council's purchasing card processes should ensure that employees do not have the ability to both review and approve their own spend. Our review of the purchasing card data between April 2022 and August 2023 for Children's Services identified 2 employees who were recorded as being both the cardholder and the line manager, therefore potentially allowing them to both review and approve their own spend:

- Employee 1 - Line Manager and Approval on 154 transactions. Totalling £10,793.06. The Specialist Commissioning & Procurement Senior Manager stated that *the employee should not be approving her own spend, and she will email them and their line manager to advise that this must stop, and that only the line manager should be reviewing spend.*
- Employee 2 - Cardholder and Line Manager on 120 transactions totalling £9,506.83. The Specialist Commissioning & Procurement Senior Manager stated that *the employee has followed the correct process by the fact that she has reviewed the transactions but not approved as this would be for her line manager to undertake, however, it is clear from the extraction that this has not been done. This may need the system to be updated.* However the fact remains that the employee in question is listed as the line manager on the data we were provided with, which means that there is no independent oversight of the transactions that she incurs on her purchasing card.

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Agreed Action 6.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority

N/A

Responsible Officer

N/A

Timescale

N/A

Agreed Action 6.2

Line Managers for each cardholder will be confirmed.

Priority	2
Responsible Officer	Director of Children's Care
Timescale	31st October 2023

Agreed Action 6.3

A quarterly review of all card holder information for accuracy will be undertaken to pick up instances where procurement have not been notified of staff changes.

Priority	2
Responsible Officer	Head Of Strategic Commissioning & Procurement
Timescale	31st October 2023

7 The splitting of payments to circumvent line manager approval

Issue/Control Weakness

Purchasing card payments have been split into several transactions in order to avoid the £1k threshold that requires line manager approval.

Risk

Unapproved transactions enable inappropriate or fraudulent purchasing activity to go undetected.

Findings

A review of the purchasing card transactions between April 2022 and August 2023 for Children’s Services identified 6 payments that appear to have been split into several transactions in order to avoid line manager approval that is required for any payments in excess of £1k.

There is no suggestion that the splitting of transactions has been done for fraudulent reasons; however no reasonable explanation has been provided by staff as to why this has been undertaken.

Agreed Action 7.1

The use of purchasing cards has been reviewed across the Council, as a result the number of cardholders will be reviewed by each Director for their Directorate. Cards no longer required will be cancelled. As this issue is being addressed at agreed action 1.1, no further action needs to be agreed here.

Priority

N/A

Responsible Officer

N/A

Timescale

N/A

Agreed Action 7.2

Individual limits per transaction and total monthly spend limits will be set for each cardholder.

Priority

2

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November 2023

Agreed Action 7.3

Cardholders will receive training on a 1-1 basis which will include the direction not to split transactions. As the requirement for training has been included at agreed action 1.2, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

Agreed Action 7.4

Procurement will provide monthly reports to Directors on Procurement Card spend, and will dip sample transactions for split transaction activity.

Priority	2
Responsible Officer	Head of Strategic Commissioning & Procurement
Timescale	30 th November 2023

Agreed Action 7.5

Arrangements will be implemented to ensure Chief Officer oversight of compliance with purchase card requirements. As this issue is being addressed at agreed action 1.4, no further action needs to be agreed here.

Priority	N/A
Responsible Officer	N/A
Timescale	N/A

8 Review of refunded card payments

Issue/Control Weakness

No evidence is available to confirm that refunded transactions classified as fraudulent have been investigated.

Risk

Attempts to use cards for fraudulent purposes are not identified, increasing the chance of future attempts being made.

Findings

Children's homes are the biggest area of spend within Children's Services, and are also the area with the highest number of card refunds. A review of these refunds highlighted that a small number of them have a description indicating that they were fraudulent.

The transactions identified were raised with the Head of Strategic Commissioning & Procurement, who confirmed that the cardholder had notified Procurement and the bank that there was fraudulent use on their card, and as a result the money was refunded and the card was cancelled. However, we were not provided with any evidence that the reason for these attempted transactions had been investigated, with a view to establish how they arose and how this situation could be prevented again in the future.

Agreed Action 8.1

Where fraudulent activity has been reported by a cardholder this will result in an investigation from procurement and a notification to internal audit. Details regarding this process will be included within the procurement card guidance.

Priority

3

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November 2023

9 Review of purchasing card policy and guidance documents

Issue/Control Weakness

Purchasing card guidance documents are not subject to a review process.

Risk

Changes to purchasing card best practise are not reflected in the available guidance documents, resulting in staff not following correct processes.

Findings

There are several guidance documents relating to purchasing card documentation for both card holders and line managers responsible for reviewing spend. These documents are available on the Council's intranet site. We reviewed these documents to confirm if they are subject to regular review, and noted the following:

- Purchasing card policy – dated November 2021
- Cardholder reviewing guidance – undated
- Cardholder Login guide - undated
- Line Manager guidance on viewing and approving transaction - undated
- Purchase card Flight booking policy – undated

Despite the fact that some policies had not been reviewed for almost 2 years and some policies were undated meaning we could not confirm when they were last reviewed, our review of these guidance documents did not note any obvious evidence of them containing outdated information. However, it would be beneficial for purchasing card guidance to be subject to periodic review in order to ensure that they remain up to date and reflect current practice.

Additionally, in light of the findings that this report has identified, management may wish to strengthen the requirements contained in the guidance in the areas of reviewing and approving spend, the requirement to provide supporting evidence for purchases that are made, and the recording of VAT where applicable.

Agreed Action 9.1

All associated policies for purchasing cards will be reviewed and updated, with clear dates and an indicated review period.

Priority

3

Responsible Officer

Head of Strategic Commissioning & Procurement

Timescale

30th November

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.

Our overall audit opinion is based on 4 grades of opinion, as set out below.

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.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.

Teesside Pension Fund Provisional Audit Planning Report

Year ended 31 March 2023

November 2023



Building a better
working world

Private and Confidential
Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

29 November 2023

Dear Audit Committee Members

Provisional Audit Planning Report

We are pleased to attach our provisional Audit Plan for the 2022/23 financial year, which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing; we will inform the Governance and Assurance Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee. We will issue a finalised planning report on completion of all detailed procedures.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 December 2023 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Rob Jones

For and on behalf of Ernst & Young LLP

Contents



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

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

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



01

Overview of our 2022/23 audit strategy



Overview of our 2022/23 audit strategy

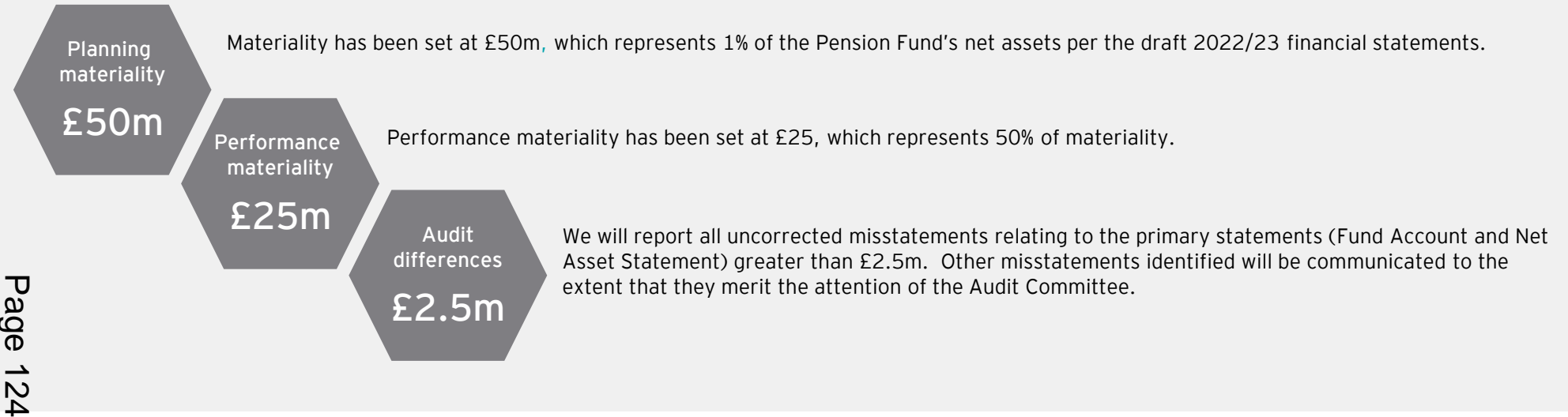
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Valuation of pooled investment vehicles	Significant risk	No change in risk or focus	The majority of the Fund's investments are held as investments in pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not normally publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.
Valuation of private market investments	Significant risk	No change in risk or focus	The Fund has a growing portfolio of private market investments. Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Greater judgement is required to value these investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date. Any error in valuation or variation since the audited information could have a material impact upon the financial statements.
Valuation of directly held property	Significant risk	No change in risk or focus	The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.
Revised ISA 315 (Identifying and Assessing the Risks of Material Misstatement)	Area of audit focus	New area of focus for 2022/23	A revision to ISA 315 has become effective for the audit of the 2022/23 financial statements. This standard requires us to perform a more robust risk identification and assessment, thereby promoting better responses to the identified risks. This involves gaining an understanding over IT applications and controls that are relevant to the financial reporting process.

Overview of our 2022/23 audit strategy

Materiality



Overview of our 2022/23 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Teesside Pension Fund give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- Our opinion on the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of Middlesbrough Council (the administering authority).

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

Considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the valuation of investments. Therefore to the extent any of these or any other risks are relevant in the context of The Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.



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02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Misstatements due to fraud or error*</p>	<p>What is the risk?</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <ul style="list-style-type: none"> ▶ Identify any material fraud risks during the planning stages of our audit; ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks; ▶ Understanding the oversight given by those charged with governance of management's processes over fraud; ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud; ▶ Determining an appropriate strategy to address those identified risks of fraud; and ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments made in the preparation of the financial statements, consideration of whether accounting estimates are free from material bias and a review for significant and unusual transactions.
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Our response to significant risks

<p>Valuation of pooled investment vehicles</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of valuation of pooled investment vehicles could affect the pooled investment vehicles account. Pooled investment vehicle assets had the following balance in the draft 2022/23 financial statements:</p> <ul style="list-style-type: none"> • Pooled investment vehicles: £4,187m (2021/22: £3,773m) • Pooled property investments: £65m (2021/22: £60m) 	<p>The majority of the Fund’s investments are held as investments in pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not normally publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.</p> <p>We have identified the valuation of the Fund’s investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.</p>	<ul style="list-style-type: none"> ▶ Document and walkthrough the process and design of the controls over the valuation process; ▶ Obtain third party confirmations of the valuation of pooled investment vehicle assets at the reporting date from the investment managers. We will also cross-check the investment manager confirmations to the confirmation of assets held obtained from the Fund’s custodian; ▶ Review the relevant investment manager controls’ reports for qualifications or exceptions that may affect the audit risk; ▶ Compare the movement in valuation of investments in pooled investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigate any unusual variances; ▶ Use national indices to assess the reasonableness of movements in investments within funds; and ▶ Review the basis of valuation for pooled investment vehicles and ensure it is in line with the accounting policy.

Our response to significant risks

Valuation of private market investments

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Financial statement impact

Misstatements that occur in relation to the risk of valuation of Private market investments could affect the pooled investment vehicles account. Pooled investment vehicle assets had the following balance in the draft 2022/23 financial statements:

- Pooled investment vehicles: £4,187m (2021/22: £3,773m)

What is the risk?

The Fund has a growing portfolio of private market investments, which for the purposes of our risk are those classified by the Fund as investments in private equity, infrastructure and other alternative assets.

Valuation of these investments is performed under a number of different frameworks, depending upon the location and jurisdiction of the investment. Greater judgement is required to value these investments as prices are not publicly available and market volatility means such judgements can quickly become outdated, especially where there is a significant time period between the latest audited information and the Fund's reporting date. Any error in valuation or variation since the audited information could have a material impact upon the financial statements.

We have identified the valuation of the Fund's investments in private market investments as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

What will we do?

The Fund's private market investments are held as pooled investment vehicles therefore the audit response detailed on the previous page as our response to the risk of valuation of pooled investment vehicles includes coverage of private market investments.

In addition, for the subset of pooled investment vehicles which are also private market investments we:

- ▶ Reperform the translation of the net asset value, where reported in a currency other than sterling, to sterling using independently sourced exchange rates;
- ▶ Using the Fund's % share of the pooled investment vehicle, as confirmed by the investment manager, reperform the calculation of the valuation of the Fund's assets and compare to the financial statement valuation;
- ▶ Use national indices to assess the reasonableness of movements in private market investments; and
- ▶ Seek explanations and, where appropriate, supporting evidence for any significant changes in valuation between the date of the audited pooled investment vehicle financial statements and the Fund's reporting date.

Our response to significant risks

<p>Valuation of directly held property</p>	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</p> <p>Misstatements that occur in relation to the risk of valuation of directly held properties could affect the properties account. Property assets had the following balance in the draft 2022/23 financial statements:</p> <ul style="list-style-type: none">• Properties: £403m (2021/22: £336m)	<p>The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.</p> <p>We have identified the valuation of the Fund's directly held property as a significant risk, as even a small change in assumptions could have a material impact upon the financial statements.</p>	<ul style="list-style-type: none">▶ Agree the valuation of the Fund's property portfolio as a whole back to the valuation report provided by the Fund's external valuer;▶ Perform an assessment of the competence, capabilities and independence of the Fund's external valuer as a management specialist;▶ Perform an analysis of property valuations, including consistency with valuations of similar assets and changes in valuations from the prior period, to identify any assets with characteristics that indicate a potentially higher risk of misstatement; and▶ Based on the above analysis, request our EY Real Estate specialists to review the valuations of a sample of assets sufficient to provide an evidence base on which to conclude on the reliability of the work of management's specialist.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Revised ISA 315 (Identifying and Assessing the Risks of Material Misstatement)

A revision to International Standard on Auditing 315 has become effective for the audit of the 2022/23 financial statements. This standard requires us to perform a more robust risk identification and assessment, thereby promoting better responses to the identified risks. This involves gaining an understanding over IT applications and controls that are relevant to the financial reporting process.

What will we do?

We will:

- ▶ As part of our scope and strategy procedures and walkthroughs, we will identify key controls and relevant IT applications;
- ▶ We will make specific enquiries in order to understand the extent of vendor and entity managed changes to IT applications, security settings and user access, and job scheduling and monitoring.
- ▶ Assess the impact of any deficiencies identified on our audit approach and report deficiencies to those charged with governance.



03

Audit materiality

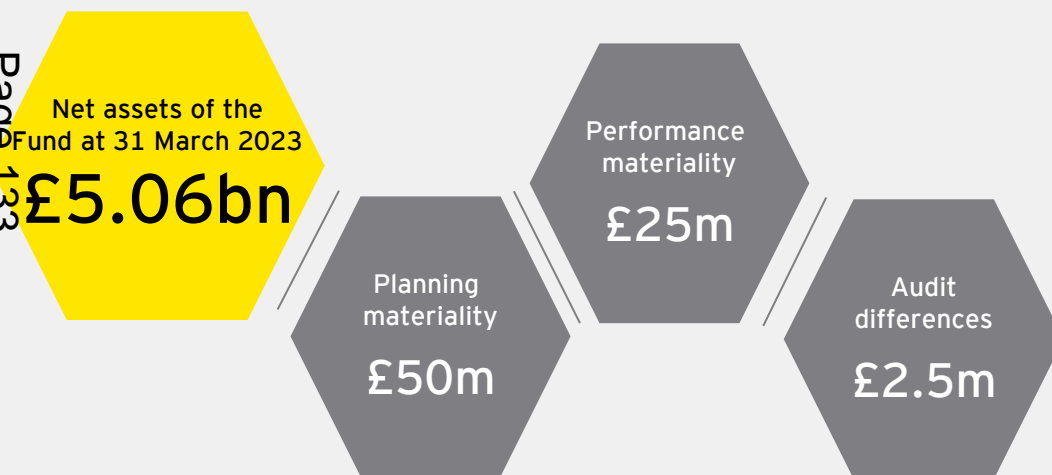


Materiality

Materiality

For planning purposes, materiality for 2022/23 has been set at £50m. This represents approximately 1% of the Pension Fund's net assets per the draft 2022/23 financial statements. It will be reassessed throughout the audit process. Net assets has been selected as a basis for materiality as we consider that this is the primary focus of users of the financial statements. We have provided supplemental information about audit materiality in Appendix D.

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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £25m which represents 50% of planning materiality. We have selected 50% of planning materiality because of the potential for errors through the use of interim financial information adjusted for cashflows as part of the financial reporting process and errors identified in the prior year.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications and misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality - We do not apply a specific lower materiality to the audit of related party transactions and disclosures, however we do consider the materiality of transactions as they apply to both parties involved, rather than just to the Pension Fund. We will also audit remuneration of key management personnel to the level of rounding in the financial statements.



04

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements and consistency of these financial statements with those disclosed within the Fund's Annual Report.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

2. Consistency opinion

We are required to consider the consistency of the Fund's financial statements, which are included within the Fund's Annual Report, with the published financial statements of Middlesbrough Council (the administering authority).

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2022/23 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

We will meet with the Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



05

Audit team



Audit team

Audit team

The engagement team is led by Rob Jones, who will have responsibility for ensuring that our audit delivers high quality and value to the Pension Fund.

Richard Tebbs will be the manager responsible for the day-to-day direction of audit work and is the key point for contact for the finance team.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Cushman and Wakefield (Management's valuation specialists) EY Real Estate valuation specialists (as auditor's specialists)
Pensions disclosures	Hymans Robertson (management's actuarial specialists) EY Actuaries (as auditor's specialists)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



06

Audit timeline





Audit timeline

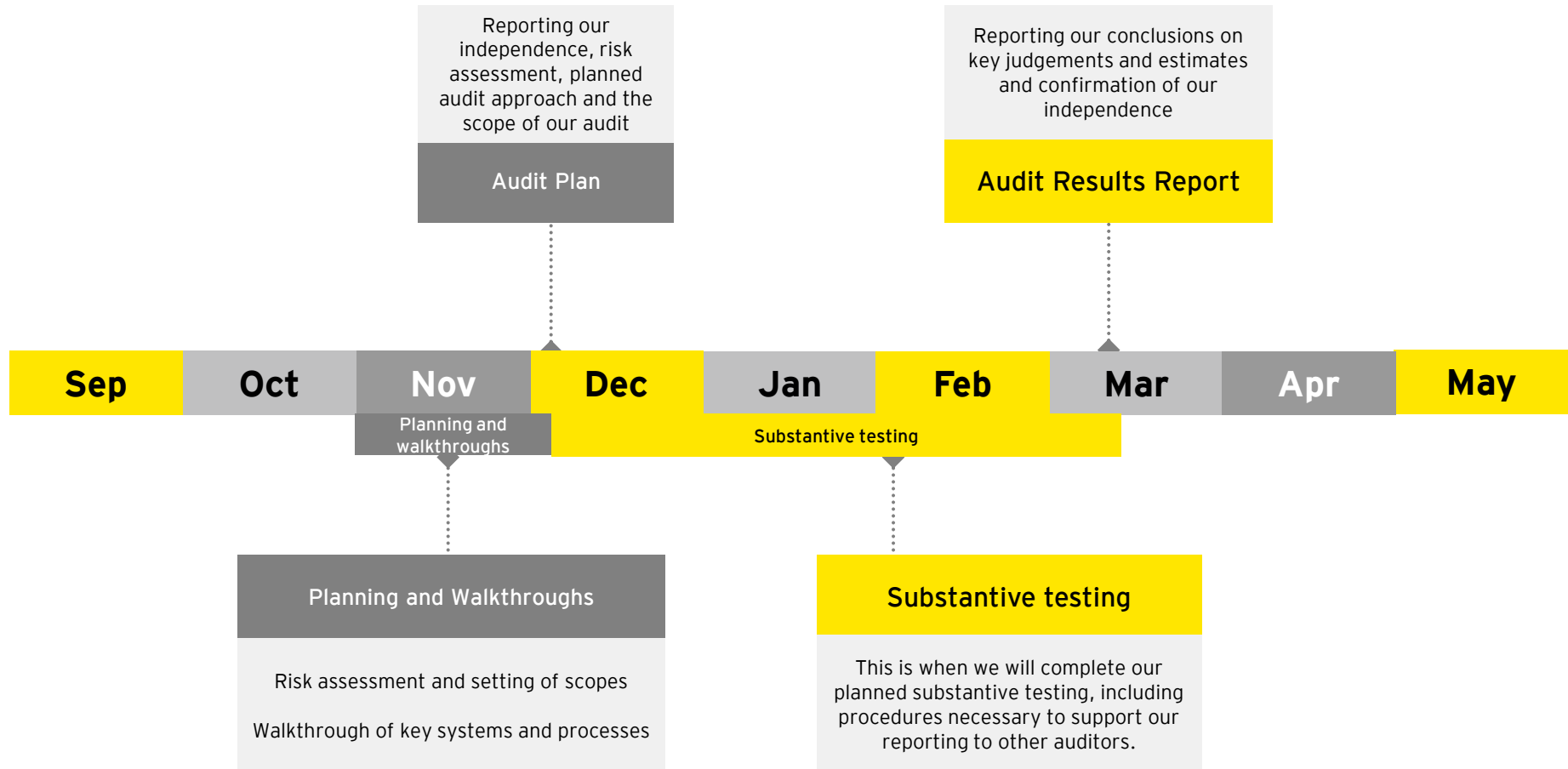
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022/23.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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07

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Rob Jones, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees, non-audit fees or business relationships and therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2023

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2023:

https://www.ey.com/en_uk/about-us/transparency-report



08

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Notes	Planned Fee 2022/23	Estimated Fee 2021/22
		£	£
Base audit fee - Code work	1	35,222	21,972
Changes in work required to address professional and regulatory requirements and scope associated with risk	2	TBC	TBC
Additional specific one-off considerations requiring additional work	3	TBC	TBC
Total audit fee		TBC	TBC
IAS 19 procedures - code work	4	9,250	19,250
Total audit fees (inc. IAS procedures)		TBC	TBC
Fees for non-audit services		Nil	Nil
Total fees		TBC	TBC

All fees exclude VAT

(1) The base audit fees reflect the amounts determined by Public Sector Audit Appointments Limited (PSAA) for the 2022/23 and 2021/22 financial years.

(2) We previously wrote to management and the Corporate Affairs and Audit Committee Chair setting out our considerations on the sustainability of UK local public audit. We have not been able to agree a scale fee variation with management and will therefore ask PSAA to make a determination as to the scale fee variation to be applied once our 2021/22 audit is concluded. The table on the previous page reflects the amount we intend to submit to PSAA as our assessment of the additional fee required to reflect changes in the level of work required to address

professional and regulatory requirements and scope associated with risk.

(3) Where we identify additional significant risks and other areas of audit focus as part of our 2022/23 audit, we will undertake additional procedures to obtain the appropriate levels of evidence to support our opinion. Until our 2021/22 audit is concluded, further procedures may be required and will discuss the additional fees with management and will provide an update once this process has been finalised.

We note that there continue to be factors which increase the extent of our audit procedures over and above the levels envisaged by PSAA when determining scale fees. For 2022/23, this includes the adoption of a new auditing standard ISA 315: Identifying and Assessing the Risks of Material Misstatement which requires us to perform additional work around the Pension Fund's control environment. We will discuss the impact of these factors on our audit fees with management once the full extent of additional effort has been determined.

(4) As part of our audit we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. Management may opt to recharge this fee to the relevant member bodies. For 2021/22, this included £10,000 for additional work required with respect to the triennial valuation.

Our final fee will be based on officers meeting the agreed timetable of deliverables, our accounts and consistency opinions being unqualified, appropriate quality of documentation being provided by the Pension Fund, and the administering authority having an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with management in advance.



Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.






Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report (This report)
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report (This report)




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Appendix B

Required communications with the Audit Committee (continued)




			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 148 Financial statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report (April 2024)	
	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report (April 2024)	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report (April 2024)	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report (April 2024)	

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit planning report (This report)</p> <p>Audit results report (April 2024)</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit results report (April 2024)</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	<p>Audit results report (April 2024)</p>
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	<p>Audit results report (April 2024); and</p> <p>Management letter (May 2024)</p>

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report (April 2024)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (April 2024)
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report (April 2024)
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report (This report) Audit results report (April 2024)

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.