

AUDIT COMMITTEE

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| <p>Date: Thursday, 25 July 2024 Time: 2.00 p.m. Venue: Mandela Room, Town Hall</p> |
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AGENDA

1. Welcome and Fire Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
4. Minutes - Audit Committee - 14 March 2024 3 - 12
5. Health and Safety Annual Assurance Report 2023 13 - 18
6. Annual Report of the Senior Information Risk Owner (SIRO) 19 - 28
7. Risk Management: Annual Assurance Report 2023/24 29 - 44
8. Middlesbrough Council - Value for Money Report 2021/22 and 2022/23 45 - 90
9. Middlesbrough Council - Audit Strategy Memorandum 2023/24 91 - 140
10. Teesside Pension Fund - Audit Strategy Memorandum 2023/24 141 - 178
11. Corporate Governance Improvement Plan and Section 24 Action Plan Progress Report 179 - 196
12. Veritau Internal Audit and Counter Fraud Work Programme 2024/25 197 - 218
13. Audit Committee Forward Work Programme 219 - 222
14. 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, 17 July 2024

MEMBERSHIP

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

Assistance in accessing information

Should you have any queries on accessing the Agenda and associated information please contact Chris Lunn, 01642 729742, chris_lunn@middlesbrough.gov.uk

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 14 March 2024.

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

PRESENT BY INVITATION: Councillor N Walker, Executive Member for Finance and Governance

ALSO IN ATTENDANCE: C Cooke, Elected Mayor, Councillor P Storey, Deputy Mayor
P Jeffrey (Internal Auditor) (Veritau), M Thomas (Internal Auditor) (Veritau),
M Rutter (External Auditor) (Ernst Young),
M Kirkham (External Auditor), (Mazars)

R Tebbs (External Auditor) (Ernst Young) - Virtual Attendance

OFFICERS: C Benjamin, G Cooper, N Finnegan, A Glover, L Grabham, C Heaphy, A Johnstone, S Lightwing and D Middleton

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor S Platt

23/26 **WELCOME AND EVACUATION PROCEDURE**

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

23/27 **DECLARATIONS OF INTEREST**

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

23/28 **MINUTES - AUDIT COMMITTEE - 1 FEBRUARY 2024**

The minutes of the Audit Committee meeting held on 1 February 2024 were submitted and approved as a correct record.

23/29 **CORPORATE GOVERNANCE IMPROVEMENT PLAN AND SECTION 24 ACTION PLAN PROGRESS REPORT**

A report of the Mayor was presented that set out the key activities, progress and impact of the Corporate Governance Improvement Plan and activity in response to the Section 24 recommendations made by the Council's External Auditors, since the last report to Audit Committee.

The activities in the improvement plan comprised ten workstreams, each with a milestone delivery plan which was monitored and reported monthly to the Leadership Team, the Independent Improvement Advisory Board and at each full Council meeting.

97% of planned activity had either been delivered or was on-track for delivery in relation to the Corporate Governance Improvement Plan, with seven planned activities measuring as off-track.

94% of activity in relation to the Section 24 delivery plan was on-track or had been delivered, with six activities showing as off-track.

The report set out the detail of the delivery plan activity, alongside supporting measures of success that were in place to assess the impact of activity.

Reference was made to a request from a Committee Member for copies of minutes of Middlesbrough Development Company Board Meetings.

AGREED as follows that:

1. The information provided was received and noted.
2. Audit Committee noted the progress against the Corporate Governance Improvement Plan and Section 24 Action Plan.
3. Copies of minutes of Middlesbrough Development Company Board Meetings would be circulated to Committee Members.

23/30

BEST VALUE NOTICE - UPDATE

A joint report of the Chief Executive, Director of Finance and Director of Legal and Governance Services was presented, the purpose of which was set out the content of the 'Best Value Notice' issued on 30 January 2024, following the expiry of the existing Notice which had been issued for a period of 12 months in January 2023.

Since September 2022, the Council has had both a Corporate Governance Improvement Plan and a Section 24 action plan in place to address the range of governance issues identified in both plans. In January 2023, government issued a 'Best Value Notice' on a non-statutory footing, which set out government's concerns in relation to the Council's governance. That notice was in place for 12 months, with clear expectations that should the Council fail to respond positively to it, intervention would be moved to a statutory footing.

Following the local and Mayoral Elections held in May 2023, the Council's approach to improvement was refreshed and in September 2023 that revised improvement plan was presented to Council, alongside the establishment of an Independent Improvement Advisory Board which had been put in place to provide guidance and support to the Council on its improvement journey, as well as provision of an independent view on progress made to date to Government. Alongside this, there had been regular engagement with government.

The above had resulted in the Council being able to work effectively with the Department for Levelling Up, Housing and Communities for the last 12 months to provide it with assurance around the range of improvement measures it had put in place. This progress had been acknowledged by government and reflected in the wording of the refreshed 'Best Value Notice' which would continue to operate on a non-statutory footing for the next 6 months. The notice set out that government expected the Council to:

- "Continue to work with the Independent Improvement Board established in Middlesbrough to support the council to deliver the council's locally lead improvement strategies, organisational transformation and to monitor progress of the application of the improvement board recommendations and delivery of improvements against the serious concerns highlighted by the external auditor, published in July 2022, around governance arrangements, and cultural and governance issues further investigated in the CIPFA review published in September 2022.
- Continue in your efforts to deliver against your agreed action plan, accepted at full Council on 30 November 2022, at pace and to meet the set milestones and success measures established.
- Continue in your efforts to implement cultural change, particularly in relation to the relationships between officers and members, and that this will be an important continuing focus of the Independent Improvement Board.
- Work with the Department as you deliver on your Best Value requirement to secure the financial recovery and return to financial sustainability through setting a balanced 3-year MTFP over the period to 2026/27."

In relation to transformation, the Chief Executive explained that he would be writing to Members within the next few weeks and a series of briefings would be held over the next month. The language used was often complex and it was vital to ensure a full understanding of the programme and what it was trying to achieve. Transformation was a big issue and defining services that could be delivered in a different way. Sometimes using better process and technology would give a better outcome for residents at a better cost. The Department of Levelling Up, Housing and Communities (DLUHC) had indicated that the Council needed to work on areas and initiatives cross-party, and aim to get a more unanimous approach to budget setting next year.

AGREED as follows that the:

1. information provided was received and noted.
2. revised 'Best Value Notice' that had been issued by government, following the expiration of the previous notice that was issued in January 2023 was noted.

23/31

REVIEW OF CONTRACTS AWARDED UNDER EXEMPTION FROM CONTRACT PROCEDURE RULES

A report of the Director of Finance was presented, the purpose of which was to provide the Committee with assurance in relation to the Council's compliance with the Public Contract Regulations 2015 specifically in relation to those contracts that had been awarded subject to an exemption from the Council's Contract Procedure Rules (CPRs)/Standing Orders (SOs).

Exemptions were allowed under specific circumstances as set out in the CPRs/SOs in exceptional circumstances, details of which were provided at paragraph 4.7 below. The report provided a summary of the Council's activity in regard to exemptions submitted and approved under the Council's standing Order rule 5 (in accordance with the previous contract procedure rules). To report on the current status of those exemptions and any issues arising from their approval.

In compliance with the section 24 recommendation made by EY in August 2023, a full review of live contracts that had been awarded subject to an exemption from CPRs has been undertaken. This identified the status of those contracts and sought to provide assurance to the Committee that the Council's procurement practices were in accordance with Contract Procedure rules and compliant with the Public Contract Regulations.

Details of the number of contracts awarded subject to exemptions from CPRs since April 2021, and any contracts awarded with exemptions prior to that date which were still live were included in a table in the submitted report at paragraph 5.1. The table indicated that 4% of exemptions received were in query by the Procurement service as a result of this process. The detail concerning those exemptions was outlined in Appendix 1 to the submitted report, along with the issue and resulting actions. None of the exemptions in query breached the Public Contract Regulations 2015 in terms of the total value of expenditure exceeding the financial limits within the regulations.

In addition, with regard to the two contracts that were let subject to an exemption which had subsequently been subject to a contract extension, the financial values had been checked and the total amount fell below the Public Contracts Regulations 2015. The review concluded that all contracts that had been awarded subject to an exemption were compliant with the financial thresholds determined under the Public Contract regulations 2015. Members could therefore be assured that the contract procedure rules in relation to letting contracts subject to exemptions were robust and compliant with legislative requirements.

Notwithstanding the assurance provided by the review, the Procurement Service had sought to deliver further improvement to strengthen the governance arrangements around procurement.

The contract procedures rules were refreshed and approved by Council as part of the Constitution in September 2023. As a result, authorisation on exemptions had been strengthened as follows:

- Requests for exemptions up to full contract value of £150,000 would be authorised by Head of Strategic Commissioning and Procurement.
- Request for exemptions in excess of £150,000 would be authorised by Head of Strategic Commissioning and Procurement, and the Director of Finance (Section 151 Officer).
- Request to extend a contract that is subject to an exemption will be signed by Head of Strategic Commissioning & Procurement, Director of Finance and Director of Legal and Governance (Monitoring Officer).

The authorisation process assured additional due diligence for any extension requests to an original exemption. No extensions were permitted if the contract values would exceed the

thresholds set out in the Public Contract Regulations. In addition the guidance stipulated that exemptions should be for no more than two years, unless there was a defined case which could demonstrate the value for money for a longer time period.

A clear process had been established for referencing, as prior to submission for signature a procurement officer would explore all feasible options including the potential for call off from frameworks, variation of existing contracts etc.

Mandatory training had been provided to all budget holders in which exemptions had been covered, and the case for exemption to be the exception, rather than the rule, had been reiterated to the staff base. Finally, guidance on the staff intranet had been updated in regard to submission of appropriate forms and associated guidance.

AGREED that the report was received and noted.

23/32

PROGRAMME AND PROJECT MANAGEMENT FRAMEWORK ASSURANCE

A report of the Director of Legal and Governance Services was presented, the purpose of which was to outline the Council's approach to Programme and Project Management (PPM) and summarise activity in the past two years and planned developments for 2024 and beyond, to provide the Committee with assurance that the Council had robust arrangements in place to support the delivery of its strategic aims and priorities.

The Portfolio Management Office (PMO) had responsibility for the strategic oversight of the Council's portfolio of programmes and projects that were managed within the corporate Programme and Project Management Framework (PPMF), which was in place to provide a consistent approach to PPM governance and documentation.

Currently, the PMO had oversight of the corporate portfolio comprising 21 projects, all of which support the achievement of strategic priorities and which continued to further embed the PPM framework across the Council, ensuring compliance through monthly project health checks.

Projects managed within the portfolio were categorised as either Level 1 (the most complex projects) or Level 2, and their performance was assessed and reported using Red, Amber, and Green (RAG) indicators that measured how well the project was delivering against expectations.

The table at paragraph 7 of the submitted report showed a positive increase in the overall performance status of projects to date (end February 2024) in the last 12 months.

An internal audit of project management arrangements in 2023, determined that a sound system of governance, risk management and control existed, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. The overall opinion of the controls within the system was 'Substantial Assurance' in relation to project governance arrangements in place to support the Council's strategic objectives, with a strong commitment to the PPM framework within the Council.

The PPM Framework and documentation had recently been reviewed and refined with the following minor amendments made to ensure the framework remains fit for purpose:

- Lowering the financial benefits thresholds in the Benefit Complexity Matrix tool, to ensure any projects delivering savings were prioritised and were given the highest level of governance and scrutiny.
- A revised and simplified Programme Definition document to ensure a more appropriate and proportionate level of detail was captured.
- A revised and simplified Level One Business Case to ensure a more appropriate and proportionate level of detail was captured.
- The development and implementation of 'An introduction to the Council's PPM Methodology' online training module.
- The introduction of monthly project health checks.

A copy of the updated Portfolio, Programme and Project Management Framework: 2024-27 was attached at Appendix 1 to the submitted report.

The Council was currently mid-way through a corporate governance improvement journey and was subject to a Best Value notice issued in January 2023, from the Department of Levelling Up, Housing and Communities (DLUHC).

To respond effectively to the wider governance challenges facing the Council, the Corporate Governance Improvement Plan was refreshed in September 2023 around two specific themes: cultural transformation and financial resilience.

An Independent Improvement Advisory Board was established to provide expertise, challenge, and advice against delivery of the revised governance improvement plan. Progress against the plan (including the Section 24 improvements), was reported at Board meetings, as well as each meeting of full Council and Audit Committee. Whilst Government recognised progress made, due to the seriousness and extent of the issues identified, the Best Value Notice had been extended for a further six months. Within this timeframe, there was an expectation to demonstrate traction and progress on development and delivery of the corporate transformation portfolio.

Successful Council-wide transformation of the organisation was integral to delivering the Council Plan 2024-27, its Medium-Term Financial Plan, and removal of the Best Value Notice through development of new approaches to the design of service delivery, driving of improved controls and efficiencies, and implementation of effective demand management measures as part of the wider governance improvement arrangements.

The scope, scale and pace of change required over the course of the MTFP would require building upon these foundations, refining governance and delivery approaches, applying best practice programme and project management principles in a pragmatic and proportional manner, and ensuring the PMO had the capability and capacity to deliver effectively. The Portfolio Management Office (PMO) would play a vital enabling role in the successful delivery of the Council's Transformation Portfolio, and existing priority business as usual programmes and projects, both directly linked to the achievement of a balanced budget over the next three years.

A proposal to strengthen the capability and capacity of the PMO was currently under consideration. To ensure the existing priority projects continued without disruption, it was proposed that the PMO Manager continued to focus on oversight, assurance and support of the existing Operational Portfolio, and that additional capacity was created dedicated to the Council's emerging Transformation Portfolio. A proposed structure was included at paragraph 21 of the submitted report. Once new transformation capability and capacity was implemented and embedded, a review of the PMO structure would be appropriate in consideration of the Council's longer-term requirements.

In response to a query from a Member it was clarified that the delivery resource required for the PMO would be identified in the transformation report to Council.

AGREED as follows that the Audit Committee:

- Approved the revised Programme and Project Management Framework (PPMF) 2024-27.
- Noted internal audit opinion that robust arrangements were in place to govern programme and project management within the Council.
- Noted project delivery performance over the past year.
- Noted the plans to increase PMO capability and capacity to support delivery of the Council's strategic priorities, aims and emerging Transformation Programme.

23/33

HR ASSURANCE PRESENTATION

The Head of Human Resources gave the annual HR Assurance Presentation and provided information in relation to:

- Employee Health and Wellbeing 2023/24
- Health and Wellbeing Work to Date
- Better Health at Work Award
- Employee Network Groups
- Staff Networks and Support Group

- Absence Management
- Turnover

With regard to the People Strategy, Health and Wellbeing and Recruitment and Retention, all the information on the intranet and staff portal would be refreshed.

Members requested further information in relation to sickness absence and the Head of HR agreed to provide a breakdown of long term and short term absences and reasons for absence by Directorate.

AGREED as follows that:

1. the information provided was received and noted.
2. further statistical data in relation to employee sickness absence would be provided to the Committee.

23/34

WHISTLEBLOWING POLICY

A report of the Director of Legal and Governance was presented to provide the Audit Committee with details of the updated Whistleblowing Policy and Procedure. A copy of the updated document was attached at Appendix 1 to the submitted report.

The Whistleblowing Policy provided a framework for employees and contractors to raise concerns in a confidential manner about issues happening at the Council. For example, health and safety risks, criminal or unlawful activity, or activities that could damage the environment. It set out how concerns could be raised and the protection that people working for the Council had if they raised an issue.

The existing whistleblowing Policy required review every three years and this policy was the result of the most recent review. The policy had been reviewed in conjunction with Veritau and had been developed using their model policy.

Along with the updated policy a dedicated email address had been launched as another avenue for concerns to be raised. Along with the updated policy a dedicated email address had been launched as another avenue for concerns to be raised. For those employees who did not have internet access, a toolbox talk was being developed to deliver the content in a briefing session. Veritau was also providing some training sessions for managers and an e-learning module.

AGREED that the updated Whistleblowing Policy and Procedure was received and noted.

23/35

LESSONS LEARNED - CORPORATE GOVERNANCE LEARNING FROM STANDARDS INVESTIGATIONS

A joint report of the Chief Executive and Directors of Finance and Legal and Governance Services was presented to inform Members of the Audit Committee of the outcome of an exercise to ensure the Council took the opportunity to learn lessons from standards complaints that had involved corporate governance issues. These issues arose from complaints investigations that had not completed by the end of the previous administration in relation to Elected Members who were not returned to office.

The report identified actions to strengthen Middlesbrough Council's corporate governance arrangements. The findings in the report were reflective of the governance concerns identified within the draft Annual Governance Statement 2020/21 and the External Auditor's Value for Money judgement for the same period.

On 3 July 2023, the Council's Standards Committee considered its quarterly report on code of conduct complaints. During the life of the last political administration 142 complaints were received. Ten of these complaints, had not reached a conclusion as at the 2023 local elections and related to Members who were not re-elected into office.

The report set out the themes of the lessons that had been learned and the action taken as follows:

Member Induction and Training

The Council delivered an induction programme offer to members in 2019 that covered the key corporate governance processes, the differences in roles between officers and members and member obligations in relation to conduct. This training approach had been scaled back during austerity to a detailed guide and a series of briefings held in the first few months of election. While there was, and is, a member training budget, this was relatively small and had to be used on occasion to cover other costs. The result of this was that levels of knowledge around processes and roles and responsibilities differed across the cohort of members in office during that time. The Democratic Services team did not have the capacity to be able to proactively engage with Members to ensure they attended training, gather meaningful feedback on training and put in place a wider programme of training on a cyclical basis to ensure learning was retained.

As a result of learning from this and as part of the Corporate Governance Improvement Plan, there had been significant involvement from the Council's Organisational Development (OD) team, who were training specialists. The OD team worked with Democratic Services, Members and other officers to agree a revised approach to training for those members who were inducted following the May 2023 local elections.

Additional resourcing had also been identified to fund training and development going forward to ensure the improved offer was delivered on a cyclical basis. This was agreed by Executive on 19 July 2023.

This issue was identified by the Council's External auditors in the 2020/21 Audit Results report, considered by the Committee on 22 July 2022. Annual Governance Statement actions and delivery of the Corporate Governance Improvement Plan had included actions to strengthen training of officers and members on a range of topics.

Adherence to roles and responsibilities

Linked to the induction and training issues, a number of the standards complaints alleged that individuals had not adhered to the remit of their role, either allegedly taking decisions that exceeded their authority or not followed a proper governance route in order to take a decision that they had the authority to take.

Improving understanding of roles and responsibilities and the roles and responsibilities of officers had been a key theme that underpinned the revised member induction programme and would continue through the delivery of additional training on corporate governance good practice during 2023/24. There was a detailed Corporate Governance programme in place which was being delivered to officers. All training materials had also been made available to Members through the Council's online training portal and included:

- Principles, Values and the Constitution.
- Procurement Procedure Rules.
- Financial Procedure Rules.
- Programme and Project Management.
- Risk Management.
- Consultation and Engagement.
- Committee Report Writing.
- Decision Making.
- GDPR and Information Governance.

Declarations of Interest

A number of complaints both within the outstanding complaints, and closed complaints during the last administration related to declarations of interest. Compliance with declarations of interest was also identified as an issue by the Council's External Auditors (EY). Since July 2022, Democratic Services team have conducted regular checks of declarations within meetings against declarations of interests forms as part of steps to support Members in compliance with their legal obligations. This had also included cross checking declared information with Companies House published information. In addition, Members' induction

training following the May 2023 elections included refreshed content on the declarations of interest process.

Member and Officer Relationships

There was a theme in the outstanding complaints around Member and officer relationships and allegations of poor behaviour. This was an area of concern in the 2020/21 and 2021/22 Annual Governance Statements and also in the 2020/21 Audit Results Report.

Action to address this was undertaken within the Corporate Governance Improvement Plan that was developed in 2022/23. The refreshed approach to this work, set out in the report to Council on 5 July 2023, included a programme of work to continue to address the cultural transformation within the Council across Member to Member and Member to officer relationships.

AGREED as follows that Audit Committee noted the:

- outcome of lessons to be learned the outstanding code of conduct complaints.
- crossover between issues identified in this report and the Annual Governance Statements for 2020/21 and 2021/22 (draft), the External Auditors Value for Money judgement 2020/21 and reports Council has considered on the Corporate Governance improvement journey.

23/36

TEESSIDE PENSION FUND AUDIT - UPDATE

The External Auditor provided a verbal update on the status of the Teesside Pension Fund Audit and the reset of local government audit timelines. It was anticipated that the 2021/2022 audit would be finalised within the next month and the majority of work on 2022/2023 was completed.

In relation to the Government reset, EY had set three priorities: to focus on Value for Money, to provide timely information and to ensure that Pension Fund Audits were progressed to conclusion. If audits were not finished, they could be disclaimed in September 2024 under current Government guidance. The Value for Money work would be included in the commentary for the above audits. Potentially EY could issue a disclaimer on the Council's audit, although this was not a final decision.

The Value for Money work was contained within the Statutory Recommendations Report and this would be included in the commentary for the two audits. This would be issued by the end of April 2024.

Members voiced concern regarding the potential for EY not to finish the outstanding audits, especially with a new External Auditor incoming. The Auditor stated that due to the national reset only 9% of audits had been completed on time. The Government Minister had implemented backstops and EY were working within the framework and getting 2023/2024 audits on track. The current process was based on past experience and unrelated to the fact that EY was not continuing as the Council's Auditor.

AGREED that the information provided was received and noted.

23/37

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Head of Internal Audit presented a report to provide the Audit Committee with an update on the internal audit and counter fraud work undertaken and information on the outcome of Veritau's recent external quality assessment.

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

Two audits had reached draft report stage since the last progress report to Committee in December 2023. The findings were currently being discussed with management in order to agree actions to address the issues identified. Four audits had been finalised since the last report to Committee. The findings from three of the audits were summarised in Annex C to the

submitted report. A copy of the audit report on the Council's acquisition of the former Crown public house was attached at Appendix 2 to the submitted report.

In relation to counter fraud, the team continued to focus on prevention measures and training, to ensure employees were alert to the risks and if they suspected fraud, to report it to Veritau. Between 1 April 2023 and 31 January 2024, the counter fraud team received 93 referrals of suspected fraud. These referrals covered potential council tax fraud, council tax reduction fraud, internal fraud, blue badge fraud, and debt evasion issues and were made by members of staff, the NFI, and the public. Thirty-one investigations had been completed this year and there were currently twenty cases under investigation. One person had been successfully prosecuted and four people have received formal warnings for fraud involving the council tax reduction scheme and council tax discounts.

Investigative work in 2023/24 had identified £55k of loss due to fraud and error. The counter fraud team supported the Council to recover losses identified as part of investigations. Counter fraud savings were also tracked by monitoring repayments to the Council and calculating the value of stopping ongoing frauds. To date £39k of counter fraud savings had been identified.

The team also supported legal proceedings taken by the Council to recover £300k of outstanding business rates from a company with substantial commercial property holdings within Middlesbrough. The case was currently going through the court process.

In relation to the report on acquisition of the former Crown public house the Auditor commented that the report looked back at events from the previous year and there were a number of recommendations to assist the Council to learn lessons and put appropriate processes in place.

Members discussed the issues raised in the report and sought assurance in relation to responsibility and accountability. The Chief Executive commented that Councillors should be able to place reliance on the system of internal control. The Council had a duty to ensure that taxpayers' money was spent appropriately and that policies for acquisition and disposal of assets were adhered to.

AGREED that the information provided was received and noted.

23/38

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

None.

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| MIDDLESBROUGH COUNCIL |  |
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| Report of: | Director of Legal and Governance Services (Monitoring Officer) |
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| Submitted to: | Audit Committee |
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| Date: | 25 July 2024 |
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|---------------|--|
| Title: | Health and Safety Annual Assurance Report 2023 |
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| Report for: | Information |
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| Status: | Public |
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| Strategic priority: | Quality of service |
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| Key decision: | No |
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| Why: | Not applicable |
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| Urgent: | Not applicable |
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| Why: | Not applicable |
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| Proposed decision(s) | |
| That the Committee notes the arrangements in place to manage health and safety within the Council, progress within the last year, and plans to further strengthen those arrangements. | |

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| Executive summary | |
| This report sets out the arrangements in place to ensure the Council meets its legal obligations in relation to health and safety. The report sets out the Health and Safety governance framework, actions delivered during 2023 and planned actions for 2024. | |

Purpose

1. The purpose of this report is to outline the Council's approach to health and safety management and summarise activity in the past year and planned activity for 2024, in order to provide the Committee with assurance that the Council has robust arrangements in place, as required by the Health and Safety Act 1974.

Recommendations

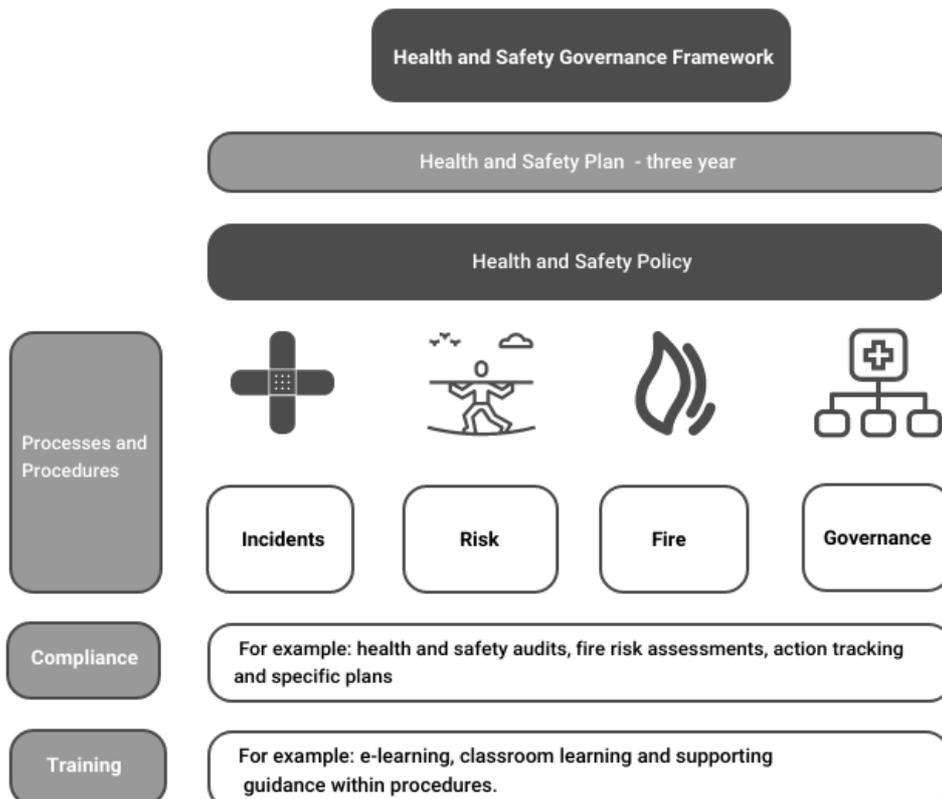
2. That the Committee notes the arrangements in place to manage health and safety within the Council, progress within the last year, and plans to further strengthen those arrangements.

Rationale for the recommended decision(s)

3. To support the Committee to discharge its responsibility to maintain an overview of arrangements in place to ensure good governance.

Background and relevant information

4. Health and safety management is the collective responsibility of all elected members and officers of the Council, with key statutory responsibilities falling to the Chief Executive and management as the employer.
5. The Council has in place the following governance framework structure to oversee health and safety, ensure compliance with legal requirements and deliver ambitions in relation to Health and Safety.



Progress in delivering the Plan during 2023

6. The Health and Safety Plan within the above diagram sets out the Council's plans in relation for a three-year period and is supported by an action plan which is reviewed annually. Progress on these actions is set out below.
7. The digitised health and safety management application (My Compliance) has continued to be developed and its processes embedded within day-to-day risk management. The system also now has a built-in legal register which provides a detailed list of all relevant legal requirements applicable to the Council's health and safety management system, this is utilised by the health and safety team to provide advice and guidance to those service areas who need it.
8. As a significant level of data has been built up in the system it has enabled the Council to improve the intelligence it can develop from:
 - incident reporting and investigation;
 - health and safety audits;
 - fire risk assessment; and
 - action tracking.
9. This has been used to improve understanding of the impact of violent incidents, unblock systematic issues to improve compliance and increase Officer and Member visibility and oversight.
10. Regular reviews of underpinning documentation with the governance framework are undertaken. During 2023 the following procedures were implemented and or reviewed:
 - Legal Register implemented.
 - Health and Safety Policy reviewed.
 - 3-year strategic health and safety plan implemented.
 - Fire procedure and policy statement implemented.
 - Noise procedure implemented.
 - Vibration procedure implemented.
 - Personal Protective Equipment Procedure implemented.
 - Respiration Protective Equipment Procedure implemented.
 - Abusive, Persistent and Vexatious Policy implemented.
11. Reporting content for oversight of health and safety has also been refreshed, utilising the new capabilities of My Compliance and Power BI to enable reports to focus on the lessons to be learned, trends and areas of concern, while providing assurance as to the robust datasets in place to track health and safety compliance.
12. A key focus of the team during 2023 has been the implementation of the health and safety management system, this has ensured that there is a robust system in place to support staff and Members.
13. The Council continues to deliver training and support to staff to ensure compliance with health and safety obligations and understanding of roles and responsibilities.

In addition to the suite of eLearning materials that were already available to all staff, during 2023:

- Face-to-face incident investigation awareness, evacuation chair and fire warden courses were delivered to supplement e-learning.
- Face-to-face manual handling and people handling were delivered to support operational areas.
- eLearning resources were refreshed to enhance Manual handling training.
- Personal Safety Train the Trainer course completed by 8 personnel within the local authority in order to deliver a bespoke package in 2024 onwards.

14. A restructure of the health and safety unit occurred in May 2023 which resulted in the health and safety unit combining with risk management to create the Risk and Health and Safety team.
15. Current financial restraints within the local authority meant one post within the risk and health and safety team has not been filled. This resulted in ownership for delivery of fire risk assessments from January 2024 moving back to Asset Management to manage and maintain until such time the post can be filled.

Health and safety activities for 2024

16. During 2024, further work will be undertaken to implement the new strategic plan for health and safety. This ensures that the Council's commitment to continual improvement in health and safety management is delivered.
17. The health and safety unit will continue to monitor and assist in developing the digital solution linking Power BI and My Compliance in order to generate improved intelligence on health and safety incidents. Further work is also planned for the development of safety training information from Middlesbrough Learns and PowerBi to further develop business intelligence available to senior management.
18. The following policies and procedures will be produced, reviewed and uploaded onto the intranet in line with planned refresh cycles:
- Work at height procedure;
 - Incident management procedure;
 - Risk assessment procedure;
 - Manual handling procedure; and
 - Lone Working Procedure.
19. Service area health and safety audits will be completed in order to further strengthen the Council's health and safety arrangements.
20. Review of the management and documented inspections of fire doors within the Council in conjunction with Asset Management to ensure compliance with Regulatory Reform Fire Safety Order 2005, BS 9999 (2017) and BS 8214.
21. Development of bespoke Personal Safety training package, to be delivered by qualified trainers to members and officers to enhance own personal safety within the local authority.

22. Underpinning the procedures and training, as set out in the governance structure, are a series of audits that allow the Council to test compliance with health and safety good practice. These will continue to be delivered during the year, outcomes and actions tracked and used to shape future priorities.
23. Internal audit to complete audit in 2024 of Middlesbrough Council's health and safety team to check effectiveness of the health and safety management system which has been implemented throughout the local authority.

Member and Officer Oversight

24. In addition to this annual assurance report to this committee, information on health and safety compliance is reported on a quarterly basis to:
- Departmental teams.
 - Trade Union representatives.
 - The Leadership Management Team
 - The Corporate Health and Safety Steering Group which comprises Members, Officers and Trade Union representatives.

Other potential decisions and why these have not been recommended

25. Not applicable.

Impact(s) of recommended decision(s)

Financial (*including procurement and Social Value*)

26. There are no new direct financial considerations in relation to health and safety management as a result of this report. By having robust plans in place, the Council will mitigate the reputational and financial risks from health and safety incidents as far as reasonably practicable.

Legal

27. Health and safety management is a part of corporate governance, and the Council has a legal duty to ensure arrangements comply with the requirements of the Health and Safety Act 1974.

Risk

28. Health and safety management positively impacts on the following risks within the Council's risk registers that relate to the management of health and safety in the workplace:
- SR-05 – Serious accident or death as a result of failure to comply with health and safety legislation and regulations.
 - HS01 – HS033 – Risks associated with the management of health, safety and fire within Middlesbrough Council.

Human Rights, Equality and Data Protection

29. There are no direct implications from this report on equality and diversity.

Climate Change / Environmental

30. Not applicable.

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

31. Not applicable.

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

32. Not applicable.

Appendices

None.

Background papers

| Body | Report title | Date |
|---------------------------------------|---|---------------|
| Corporate Affairs and Audit Committee | Health and Safety: Annual Assurance Report 2022 | 31 March 2023 |

Contact: Gary Welch, Strategic Risk and Health and Safety Manager.
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MIDDLESBROUGH COUNCIL

| | |
|-------------------------------|---|
| Report of: | Head of Governance, Policy and Information |
| Submitted to: | Audit Committee |
| Date: | 25 July 2024 |
| Title: | Annual Report of the Senior Information Risk Owner (SIRO) |
| Report for: | Information |
| Status: | Public |
| Council Plan priority: | Delivering Value for Money |
| Key decision: | Not applicable |
| Why: | Not applicable |
| Subject to call in?: | Not applicable |
| Why: | Not applicable |

Proposed decision(s)

That the Audit Committee notes the position in respect of information governance as set out in the report and the arrangements in place to manage them and considers whether the information provided is sufficient to provide them with assurance that information governance arrangements that are in place are sufficient. If the committee is dissatisfied, it is asked to give direction on the additional information it requires in order to be assured about the Council's Information Governance arrangements.

Executive summary

This report sets out arrangements in place to ensure the proper governance of information within the Council, progress made within the 2023 calendar year, risks and issues arising, and priorities for 2024. This report provides assurance to the Committee that information governance (IG) policy and practice within the Council is in line with legal obligations, and consistent with the principles of good governance.

1. Purpose

- 1.1 To advise the Audit Committee of arrangements in place to ensure the proper governance of information within the Council, progress made within the 2023 calendar year, risks and issues arising, and priorities for 2024/5.

2. Recommendations

- 2.1 That the Audit Committee notes the position in respect of information governance as set out in the report and the arrangements in place to manage them and considers whether the information provided is sufficient to provide them with assurance that information governance arrangements that are in place are sufficient. If the committee is dissatisfied, it is asked to give direction on the additional information it requires in order to be assured about the Council's Information Governance arrangements.

3. Rationale for the recommended decision(s)

- 3.1 Consideration of this report supports the Committee in discharging its responsibilities in relation to corporate governance, which includes information governance.

4. Background and relevant information

The Information Governance Framework

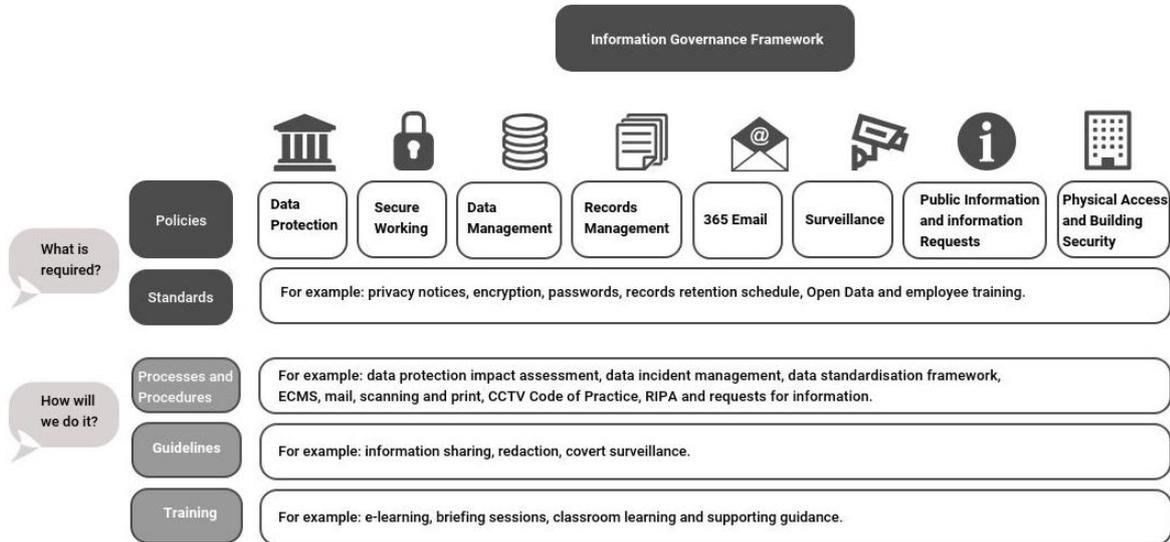
- 4.1 The Council must create, protect, manage, share and disclose information in line with a complex legal framework. This report deals principally with information governance arrangements relating to the following, and the risks arising from:

- Data Protection Act 2018 (DPA);
- UK General Data Protection Regulation 2016 (UK GDPR);
- Privacy and Electronic Communications Regulations 2003 (as amended);
- Environmental Information Regulations 2004 (EIR);
- Freedom of Information Act 2000 (FOI);
- Regulation of Investigatory Powers Act 2000 (RIPA); and
- Protection of Freedoms Act 2012 (PoFA).

- 4.2 The Council's activity in this area is largely regulated by the Information Commissioner's Office (ICO), with the Investigatory Powers Commissioner's Office (IPCO) acting as the regulatory body for RIPA and compliance with the Surveillance Camera Code of Practice and the relevant provisions of PoFA encouraged by the Biometrics and Surveillance Camera Commissioner.

- 4.3 The Head of Governance, Policy and Information acts as the Council's Senior Information Risk Owner (SIRO) / Senior Responsible Officer (SRO) for Biometrics and Surveillance and RIPA, and is the owner of the Council's Information Strategy. The SIRO advises the Chief Executive and the Council's management team on information risk, reporting quarterly to the internal risk management group and annually to the Leadership Management Team and to this Committee.

4.4 The Council has in place an Information Governance Framework (IGF) to ensure appropriate governance arrangements are in place and policies have been regularly refreshed prior to their set expiry dates. The diagram below, sets out the current content of the Council’s Information Governance policy framework.



The Information Strategy

4.5 In 2023 the Leadership Management Team requested an options appraisal on the potential to combine a number of Council business strategies into a single Operations Strategy. One outcome of that assessment was a decision that the Information Strategy should remain separate and be refreshed in 2024. Action is underway to refresh this strategy in 2024 to ensure that the Council continues to adhere to good practice in relation to information governance and ensures that its approach to information governance adapts and reflects to a moving policy and technical landscape.

4.6 The 2024 refresh will focus on refreshing the assessment of the health of Council data, identifying improvement transformation required to enable the Council’s delivery of transformation activity, refreshing the information governance policy framework to reflect emerging opportunities and risk, for example, opportunities around use of artificial intelligence and policy safeguards that will need to be put in place.

Data Protection

4.7 A focus for data protection work continues to be around incidents and rights requests. Other data protection activity over 2023 has involved cyclical reviews and updates to information sharing agreements and privacy notices.

4.8 Mandatory training compliance has declined to 91% with areas for improvement identified in Children’s Services, partly due to staff turn-over, and Regeneration Services, where plans for alternative training approaches for large groups of casual staff in cultural and creative services are being developed.

4.9 The final 2 out of 63 recommendations from the 2020 Information Commissioner’s Officer (ICO) consensual audit of the Council were implemented. Analysis of ICO published statistics for receipt of *any* complaints and concerns up to June 2023, showed Middlesbrough Council ranked 115th equal out of 118. Within 2023 there were no complaints or breaches referred to the Council by the ICO and of the 4 reports made to the ICO about the Council, all were closed with no further action.

Information Security

4.10 The UK Government cyber breaches survey reported in early 2023 found that 32% of businesses and 24% of charities overall reported breaches or attacks from the last 12 months with that figure increasing to 69% for large businesses. The robust approach to legally required compliance checks and contracts with suppliers and others continues to protect the Council from potential significant financial, regulatory, and other legal risks within our supply chain.

4.11 The table below summarises the number of personal data breaches and ICT/other security incidents (those involved lost or stolen ICT hardware or physical building security incidents).

| Reporting by Year | Personal data breaches | ICT/other security incidents |
|-------------------|------------------------|------------------------------|
| 2021 | 100 | 8 |
| 2022 | 80 | 19 |
| 2023 | 94 | 20 |

4.12 Reported personal data breaches have increased slightly on the previous year, while ICT/other security incidents have remained in line with the number reported in the previous year but have changed in nature with the addition of lost/stolen identity badges and access fobs as a reportable category. Investigations are undertaken into every report to identify any areas of concern and appropriate actions taken, up to and including disciplinary action if appropriate, to mitigate any unacceptable levels of risk.

4.13 Six personal data breaches were reported to the ICO in 2023 for the following reasons:

- Unauthorised access to records by staff member
- Prosecution legal bundle sent to wrong address
- Disclosure of identity of person who reported a safeguarding concern
- Manager disclosed health data about an employee to their colleague
- Sub-contractor of a supplier suffered a cyber-attack
- Disclosure of identity of service user to another family

4.14 Key measures that the ICO considered when assessing these breaches were the existence, and completion, of training relevant to the breach and the existing of processes that, if they had been followed, would have avoided the breach occurring.

4.15 Following investigation the ICO took no further action on these incidents having been satisfied that the breaches were contained and the risk to individuals mitigated appropriately and that the actions were attributable to human error, due to the existence of robust controls already in place, or due to unauthorised actions of specific staff members which were addressed with disciplinary investigation/action.

Cyber Security

- 4.16 Ransomware and state-sponsored attacks continue to dominate the threat landscape and in response, all services that the Council hosts internally i.e. within its data centres, for either residents or staff have now been restricted to only be accessible from the United Kingdom. There are however a small number of public facing services (such as the Council's website) that are exempt, where access is allowed from anywhere, other than 16 countries that are classed as high-risk, from which all internet traffic is blocked.
- 4.17 Within the context of rising threat levels globally, the Council continues to maintain a strong cyber security stance. No systems, services, or information (whether on premises or in the Cloud) were compromised during the year and all hardware and software continues to be supported, updated, and patched, in-line with the Council's policies.
- 4.18 All Council staff that have access to corporate devices have now been onboarded into the Microsoft 365 platform and enrolled for Multi-Factor Authentication, which enhances Microsoft's 'Conditional Access' service to require additional authentication when staff are using an unmanaged (personal) device. This is now enabling staff to realise the benefits and convenience of BYOD (Bring Your Own Device) to access cloud services, as these security enhancements have also allowed us to externally publish our new intranet site (hosted on SharePoint) and E-mail for all staff, without any fear of compromise or data leakage.
- 4.19 In November 2023, the annual test of the ICT Disaster Recovery Plan for its data centres was successfully completed. No additional technical recommendations were noted as a result of the test and the annual maintenance schedule for critical infrastructure components was completed without issue.
- 4.20 The Council still maintains the highest possible email domain security rating, which is assessed by the Northeast WARP (Warning Advice and Reporting Point) group.
- 4.21 A Cyber Security Training Strategy is in development which will ensure that staff are educated appropriately regarding modern cyber threats and their associated risks and options for mitigation.
- 4.22 The Council successfully retained its annual Public Services Network (PSN) compliance, confirmed in May 2024.
- 4.23 After further exploration of the ISO27001 accreditation, which is a set of standards for organisations that host services and store data for other organisations, which Middlesbrough Council does not, it would not be appropriate. ICT Services will however undertake the government's new self-assessment programme, CAF (Cyber Assessment Framework) towards the end of 2024, which aims to compare our cyber security against industry standards.
- 4.24 The Local Government Association (LGA) has been invited to conduct a cyber security exercise in June 2024 to test our business continuity and disaster recovery plans. The aim of this work is to provide assurance about the reported risk controls that are in

place to safeguard the Council's ICT infrastructure, systems, applications, data and will assess our response. The exercise will involve a phishing campaign and a theoretical scenario locking staff out of business functions for service user payments. The LGA provide a report to the Council on areas of weaknesses and strengths together with recommendations for business continuity and ICT functional improvements.

Records Management

- 4.25 The Council continues to actively review its physical records and the storage and management options for them. The relocation of Council services to Fountain Court provided an opportunity in 2022 to further digitise records. The Council continues to assess records for digitising where there is a business case to do so. The advantage of digitised records is that their accessibility is increased and there is a reduced amount of physical storage space required. This is assessed against the costs of digitising.
- 4.26 Officers from ICT and Information Governance are working collaboratively to ensure good records management practice is embedded within the project to move to Microsoft SharePoint.
- 4.27 The team continue to complete ad hoc data audits where necessary to improve practice. One audit was completed during 2022 and all actions have been implemented as a result.
- 4.28 From time to time the Council will receive a direction to hold documentation for longer than the planned retention schedule, to support a national inquiry. Since this was last reported to the Committee, the requirement to retain documentation in relation to the Independent Inquiry Child Sexual Abuse (IICSA) has been ceased. During 2022 all councils received a direction to retain certain documentation in relation to Covid-19 by the UK Covid-19 inquiry.

Surveillance Policy

- 4.29 The Council continues to operate an integrated Surveillance Policy which sets out how and when surveillance would be authorised, conducted, reviewed and reported. During 2023 a priority for the team was to further develop training in relation to surveillance to ensure that key staff understand when they are likely to undertake an action which should be assessed using this policy and the differences between RIPA and non-RIPA processes. In line with best practice, the policy was reviewed in December 2023 by the Executive Member for Finance and Governance. The next review will be undertaken in December 2024.

Public Information and Information Requests

Subject Access Requests

- 4.30 In 2023, 102 individuals made subject access requests for the data held about them by the Council. 17 of those requests were for data held in more than one service area, meaning the number of actual responses provided totalled 128 and of those two thirds involved service areas in Children's Services.

4.31 Only 12 service area responses were overdue and only 2 of those were greater than 7 calendar days overdue. The reasons for those delays included problems with engagement from the requestor to enable provision of the response in an appropriate and safe manner and delays due to the legal requirement to consult the external “appropriate health professional” prior to disclosure of medical information held by the Council.

4.32 Overall, this represents a sustained improvement in the Council’s compliance with data protection laws around transparency and access to data in 2023, compared to performance in 2019 where only 42% of SAR responses were “in time”.

Freedom of Information and Environmental Information Regulations (FOI and EIR)

The following table summarises statutory information requests received by the Council over the previous two years.

| Request Type | 2022 | 2023 | % in time 2023 | Volume trend |
|---|-------------|-------------|-----------------------|---------------------|
| Freedom of Information Act 2000 (FOIA) | | | | |
| FOIA requests | 1266 | 1295 | 88.6% | ↑ |
| Environmental Information Regulations 2004 (EIR) | | | | |
| EIR requests | 94 | 70 | 85.7% | ↓ |
| Appeals (FOIA and EIR) | | | | |
| Requests to review initial responses | 25 | 20 | 100% | ↑ |
| Appeals to the ICO | 3 | 0 | 100% | ↓ |
| % Appeals upheld in MBC’s favour | 60% | 60% | N/A | N/A |

Requests under the Freedom of Information Act 2000 increased in volume by 2.29% during the 2023, compared to 2022. Performance reporting shows an increase in FOI/EIR compliance with timescales. The Council received a number of complex information requests regarding key programmes and projects and associated political decisions. Where there are trends in data requests, the Council continues to look to publish popular datasets in order to manage demand and reduce the need for the public to use the FOI/ EIR process. The Council publishes a range of datasets on its open data website.

Physical Access and Building Security

4.33 The Council has a range of policies and procedures in place which manage building security and access to Council sites, along with a building manager model. Following a spate of incidents, recommendations have been made about changes to building security measures and practices. Subject to the outcomes of any wider building asset portfolio decisions, further recommendations may be forthcoming. The Council’s Health and Safety and Data Protection Teams continue to undertake audits of other buildings which includes testing of physical access policies and controls.

Priorities Risks and Opportunities for 2024

- 4.34 The key priority during 2024 will be to review the Information Strategy to ensure that the operational aims of the Council align with the Strategic vision set by Members and the organisations direction of travel, in particular in relation to the work on-going around budget and governance.
- 4.35 That work has already started, and the Information Strategy is in the process of being re-built around the public sector 'Information Principles' – that information is a valued asset, managed, fit for purpose, standardised and linkable, reused, published, and that citizens and businesses can access information about themselves.
- 4.36 The second priority of the organisation will be the successful delivery of transition to SharePoint. As set out above, SharePoint will transform how the Council stores, shares and uses data on a day-to-day basis. Information governance considerations are embedded within the scope of the project to ensure that the benefits of SharePoint are maximised while ensuring a robust approach to information governance and security.

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

5.1 Not applicable – this report is for information only.

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

6.1 *Financial (including procurement and Social Value)*

There are no new direct financial considerations in relation to the topics covered in this report.

6.2 *Legal*

Information Governance is governed by UK legislation, regulation, statutory guidance and case law. This report sets out, at a high level, measures that the Council is taking and plans to take in order to ensure ongoing compliance with this legal framework.

6.1 *Risk*

Improved information governance will ensure good risk management. Continued action in this area will positively impact on the risk within the Strategic Risk Register:

- SR-09 - If the Council's **Corporate Governance arrangements are not fit for purpose and appropriate action is not taken to rectify this at pace**, this could result, censure from the Council's auditors within a public interest report that would damage the Council's reputation and/or in government formal intervention including removal of powers from officers and members and direction of council spend.

6.2 *Human Rights, Public Sector Equality Duty and Community Cohesion*

Not applicable – this report is for information only.

6.3 *Climate Change / Environmental*

Not applicable – this report is for information only.

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

Good information governance has a direct impact on the quality of services provided by the Council and the safety and security of vulnerable children.

6.7 *Data Protection*

There are no data protection implications about this specific report for information.

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

Not applicable, as the report advises the Committee and seeks comment. The activity outlined in the main body of the report will ensure good governance relation to information governance.

Appendices

None.

Background papers

| Body | Report title | Date |
|---------------------------------------|---------------------------|----------------------------|
| Corporate Audit and Affairs Committee | Annual Report of the SIRO | 08/02/2018 |
| | | 07/02/2019 |
| | | 06/02/2020 |
| | | 21/04/2021 |
| | | 17/03/2022 |
| | | 16/03/2023 |

Contact: Ann-Marie Johnstone, Head of Policy Governance and Information
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| MIDDLESBROUGH COUNCIL |  |
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| Report of: | Director of Legal and Governance Services (Monitoring Officer) |
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| Submitted to: | Audit Committee |
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|--------------|--------------|
| Date: | 25 July 2024 |
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|---------------|---|
| Title: | Risk Management: Annual Assurance Report 2023/4 |
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| Report for: | Decision |
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| Status: | Public |
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| Council Plan priority: | Delivering Value for Money |
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| Key decision: | Not applicable |
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| Why: | Not applicable |
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| Subject to call in?: | Not applicable |
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| Why: | Not applicable |
|-------------|----------------|

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| Proposed decision(s) | |
| That the Audit Committee notes the position in respect of risk management as set out in the report and the arrangements in place to manage them and considers whether the information provided is sufficient to provide them with assurance that risk management arrangements that are in place are sufficient. | |

Executive summary

This report sets out the arrangements in place to ensure the Council meets its legal obligations in relation to Risk Management. The report sets out the Risk Management governance framework, actions delivered during 2023 and planned actions for 2024.

Purpose

1. The purpose of this report is to outline the Council's approach to risk management, summarises activity in the past year and planned activity for 2024, to provide the Committee with assurance that the Council has robust risk management arrangements in place.

Recommendations

2. That the Audit Committee notes the position in respect of risk management as set out in the report and the arrangements in place to manage them and considers whether the information provided is sufficient to provide them with assurance that risk management arrangements that are in place are sufficient.

Rationale for the recommended decision(s)

3. To support the Committee to discharge its responsibility to maintain an overview of arrangements in place to ensure good governance.

Background and relevant information

4. Risk management is a critical element of corporate governance and is a statutory requirement for public sector organisations. The council is required to provide for the health and safety of its elected members, employees, and those that it serves. It has a duty to ensure effective planning for civil emergencies and is required to protect its assets and to take steps to minimise losses and liabilities.
5. Risks must be reduced to an acceptable level, or if possible, eliminated. Robust risk management will enable the council to effectively discharge its responsibilities and deliver its various functions. The council is committed to maintaining a systematic and cost-effective approach to the identification and management of risk that is consistent with best practice and complies with statutory and audit requirements.

The Council's approach

6. Risk Management is the collective responsibility of all elected Members and officers of the Council. The Council's approach to Risk Management is articulated by the Risk Management Framework which was reviewed by Executive in July 2023.
7. The Council uses risk registers to manage the various risks it identifies. The overarching risk register is called the strategic risk register. This register captures the

most significant risks the organisation is exposed to that could impact on its ability to deliver its strategic priorities which are outlined in the Council Plan.

8. This strategic risk register is underpinned by directorate level risk registers which are monitored by directors. Within project and programmes, risks are captured using standardised project documentation which includes risk registers. There are processes in place to ensure risks are considered either as they are managed during business-as-usual processes or throughout the life of a project and that they are escalated and de-escalated as appropriate.
9. In addition to annually reporting the Council's overall approach on Risk Management to this Committee, a summary of the Strategic Risk Register is monitored monthly in performance deck and reviewed every three months by the Leadership and Management Team.
10. A summary of the current Strategic Risk Register is appended to this report at Appendix 1.

Risk Management Framework

11. The risk element of the Risk Management Framework:
 - defines what Risk Management means to the Council.
 - outlines the objectives and benefits of effective Risk Management.
 - sets out the different roles and responsibilities held by Members and Officers in relation to Risk Management.
 - articulates the Council's risk appetite; and
 - defines the cycle it uses to manage risk.
12. There are four levels of risk registers within the organisation for business-as-usual processes, which cover strategic level risks to Heads of Service risks and this information is held within the Risk Management software tool used by the organisation (Ideagen) with the appropriate level of ownership allocated to each risk. In addition to this risk management is embedded within the Council's Project Management Framework.
13. The Council's [Risk and Opportunity Management policy](#) sets out in detail how risks are captured, scored and managed. It uses the following risk appetite for scoring, which explains the scoring in the Strategic Risk Register which is attached to this report:

| | | | | | | | |
|---------------------------------|------------------------|---|---------------|----------------|---------------|----------------|---------------|
| Likelihood (Probability) | Almost Certain >80% | 5 | Low (5) | Medium (10) | High (15) | High (25) | High (35) |
| | Likely 51% - 80% | 4 | Low (4) | Medium (8) | High (12) | High (20) | High (28) |
| | Possible 21% - 50% | 3 | Low (3) | Medium (6) | Medium (9) | High (15) | High (21) |
| | Unlikely 6- 20% | 2 | Low (2) | Low (4) | Medium (6) | Medium (10) | High (14) |
| | Rare <6% | 1 | Low (1) | Low (2) | Low (3) | Low (5) | Medium (7) |
| | | | 1 | 2 | 3 | 5 | 7 |
| | | | Insignificant | Minor | Moderate | Major | Extreme |
| | | | Impact | | | | |

Risk Management - Improvement Plan

14. A Risk Improvement Plan was developed in March 2023 for the Council to ensure that it is committed to ensuring its Risk Management practice continues to be effective. Actions were split into the following areas:

- Risk communication and training – Intranet updates – shared information.
- Strategic risk identification and monitoring – LMT 3 monthly reviews.
- Risk management processes - DMT monthly reviews.

Risk Communication and Training

15. During 2023, a risk management web page was re-developed with all documentation being made available via the intranet. There have been improvements made within the eLearning modules on Middlesbrough Learns. The Risk Management Group is fully established and meets on a quarterly basis to monitor and manage risk with internal audit also in attendance.

Risk Identification and Monitoring

16. Horizon scanning identifies significant emerging risks that the Council should be aware of and how they impact on the organisation. The information from this is considered by LMT and the outcome is reflected within risk registers as appropriate. This exercise is repeated every 6 months.

17. Statistical analysis of the Council’s insurance claims was undertaken to identify any risk trends forming and this information was reviewed by the Risk Management Group.

Risk Management Processes

18. Linkages with Internal Audit have been further strengthened by enabling items to be placed on the Council’s Risk Management Group agenda and receiving the minutes of the meetings. The Risk Business Partner now receives all final audit reports and

reviews them to ensure any actions from internal audits identified are put on to the risk management software (Ideagen) for monitoring and review. Auditors have access to the Ideagen to view risks to scope their audits and can contact the Strategic Risk and Health and Safety Manager or Risk Business Partner should they require any support with this.

19. Within the performance monthly report format there is a strategic risk section, risk performance section and audit section. Guidance is provided for completing risk profile requests, which service areas utilise to identify what risks they are mitigating within the Council's risk registers. The Risk Business Partner checks compliance on the risk section monthly and provides feedback where required.

Internal Audit of Risk Management

20. An Internal Audit of the Council's Risk Management arrangements is programmed to be completed in 2024, any recommendations received from the audit will be highlighted to all relevant members and officers when complete.

Risk Management Activities for 2024

21. During 2024/25, further work will be undertaken to build on progress made in 2023/24 part of the Council's commitment to continual improvement in risk management planning. Planned activity includes:
 - The Communication and Engagement plan is to be reviewed to identify what work is being developed and rolled out within directorates to ensure a coordinated approach.
 - Strategic Risk Register review by LMT incorporating any new risks, current controls, future mitigations, and scoring. Improving compliance with the requirement to record activity in the system. This is to be completed on a quarterly basis outside the scope of normal LMT meetings.
 - Improvements in the build in Ideagen for Directorates, giving oversight to directorate leadership teams where there are multiple directors. The Risk Business Partner will also attend DMT's on a monthly cycle to improve the focus on risk and business continuity.
 - Review of Risk Management Group membership to include an LMT lead.
 - Increase risk reporting frequency to Audit Committee on risk governance and the content of the Strategic Risk Register.
 - Review of the current risk management software to ensure that it fulfils the Councils requirements and is best value for money.

Rationale for the recommended decision

22. To support the Committee to discharge its responsibility to maintain an overview of corporate governance within the Council, which includes risk management.

Other potential decisions and why these have not been recommended

23. The Committee could determine that this report is insufficient to provide it with assurance. It is the officers view that this is not recommended because the report sets out in detail the governance arrangements that are in place to ensure good governance on this matter.

Impact(s) of recommended decision(s)

Financial (*including procurement and Social Value*)

24. There are no new direct financial considerations in relation to risk management as a result of this report. By having robust risk registers in place which are regularly reviewed at the correct levels ensures that the Council will be better placed to mitigate against the following:

- financial implications.
- reputational damage.

Benefits arising from robust risk management are as follows:

- health and wellbeing of members, officers, and members of the public.
- informs business decisions.
- enables a more effective use of resources.
- enhances strategic and business planning; and
- strengthens contingency planning.

Legal

25. Risk Management is a part of corporate governance, the proposed activity is consistent with and will promote the achievement of the Council's legal duty to achieve Best Value for Money.

Risk

26. Risk management positively impacts on all risks within the Council's risk registers, primarily the risk that the Council fails to achieve good governance.

Human Rights, Equality and Data Protection

27. There are no direct implications from this report on equality and diversity.

Climate Change / Environmental

28. Not applicable.

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

29. Good risk management within Children's Services and Adult Social Care and Health Integration directorates will ensure that the correct level of support is given to Children, Young People and Care Leavers.

Data Protection

30. Risk management arrangements are a critical control in order to ensure compliance with data protection legislation in particular the availability of personal data to avoid personal data breaches.

Actions to be taken to implement the decision(s)

| Action | Responsible Officer | Deadline |
|--|---------------------|------------|
| Implement the actions laid out in the plan for 2024/25 | Gary Welch | 31/03/2025 |

Appendices

Appendix 1 – Strategic Risk Register

Background papers

N/A

Contact: Gary Welch, Strategic Risk and Health and Safety Manager
Email: gary_welch@middlesbrough.gov.uk

Strategic Risk Register 2024 as at 16/7/2024

Appendix 1

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|---|--|---|--|--|---------------------|
| SR-01 | <p>Failure to set a legal and balanced annual budget and to maintain a sustainable Medium Term Financial Plan (MTFP) The Council is required to set a legally balanced revenue budget by 11 March in advance of each forthcoming financial year. Failure to achieve this objective will require the s151 Officer to issue a statutory s114 Notice to the Council. The Council has a best value duty to set and maintain a sustainable and balanced Medium Term Financial Plan including maintenance of its reserves position to demonstrate financial resilience to be able to respond to unforeseen and complex financial challenges presented by the wider economic environment.</p> <p>Failure to Maintain a balanced budget and MTFP</p> | <p>Probability</p> <p>Impact</p> <p>35</p> | <p>Probability</p> <p>Impact</p> <p>35</p> | <p>Probability</p> <p>Impact</p> <p>21</p> | Director of Finance |
| Current Mitigation | | Future Mitigation | Responsible Officer | Director | Target Date |
| <ul style="list-style-type: none"> Responsibility and Accountability for Financial Management reinforced by Accountability Agreements for all Directors Monthly budget monitoring, forecasting, and tracking of savings delivery by Directors with accountability to the Interim CEO through LMT and development and delivery of financial recovery plans to control within approved budget Monthly budget challenge sessions chaired by Director of Finance for all Directorates to enable development of insight, understanding and wider collaboration of colleagues in order to address significant financial risks. Timely briefing of Mayor and Executive Members on significant financial challenges with agreement for action. Quarterly budget challenge sessions chaired by the Executive Member for Finance & Governance to engage Executive Members. Monthly monitoring of income budgets, council tax and business rates collection rates and debt levels. | | Development of balanced 2024/25 Budget and MTFP to 2026/27 | Director of Finance | ✓ | 11-Mar-2024 |
| | | Refresh of the 2025-26 MTPS process | Andrew Humble | ▶ | 28-Jul-2024 |
| | | Failure of the Recover, Reset, Deliver Transformation Portfolio | Chief Executive | ▶ | 31-Mar-2025 |
| | | Failure of the Recover, Reset, Deliver Transformation Portfolio to identify further savings | Chief Executive | ▶ | 31-Mar-2025 |
| | | Monthly budget monitoring to be put in place | Director of Children's Care; Director of Children's Services | ✓ | 31-Mar-2024 |
| | | Monthly budget monitoring to be put in place | Director of Adult Social Care and Health Integration | ✓ | 31-Mar-2024 |
| | | | | | Director of Finance |

| | | | | |
|---|--|--|--|--|
| <ul style="list-style-type: none"> Update MTFP ahead of Council Planning and budget setting process for 2024/25. Implementation of budget management Power BI dashboard over Business World financial management system in order to improve accessibility of financial information for Directors, Heads of Service and Budget Manager. Implementation and expansion of purchase to pay compliance dashboards for use by Directors, Heads of Service and Budget Managers to drive increase in compliant procurement in relation to retrospective ordering, on vs off contract spend and use of purchase cards | | | | |
|---|--|--|--|--|

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|------|------------------|----------------|---------------|--------------|------------|
|------|------------------|----------------|---------------|--------------|------------|

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|--|--|---|---|---------------------------------|--|---------------------------------|
| SR-02 Page 37 | Volatility in the demand, complexity and cost of children's social care. | The risk that demand and cost of and children's social care continues to escalate on the scale experienced in 2022/23, is the single biggest risk to the Councils financial viability. More financially sustainable solutions for meeting social care needs of children need to be secured with urgency to ensure delivery within the approved budget for 2023/23. | Probability Impact 35 | Probability Impact 28 | Probability Impact 21 | Director of Children's Services |
| | Current Mitigation | | Future Mitigation | | Responsible Officer | Director |
| Children's input | | Weekly placements panel to be put place for high cost placements | Director of Children's Care | ✓ | Director of Children's Care; Director of Children's Services; Director of Education and Partnerships | 30-Jun-2023 |
| <ul style="list-style-type: none"> Weekly activity data through Chat reports/ data Moving to monthly financial monitoring Development of demand model | | Review Placements Manager post | Claire Walker | ✓ | | 29-Feb-2024 |
| | | Monthly budget monitoring to be put in place | Director of Children's Care; Director of Children's Services | ✓ | | 31-Mar-2024 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|------|------------------|----------------|---------------|--------------|------------|
|------|------------------|----------------|---------------|--------------|------------|

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|-------|--|--|---------------------------------|---------------------------------|--------------------------------|--|
| SR-03 | Volatility in the demand and cost of adult's social care | The potential for underlying demand and cost pressures to arise in adult social care presents a significant risk to the Council's overall financial viability and measures must be put in place to manage within approved budget. | Probability Impact 35 | Probability Impact 15 | Probability Impact 9 | Director of Adult Social Care and Health Integration |
|-------|--|--|---------------------------------|---------------------------------|--------------------------------|--|

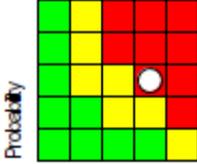
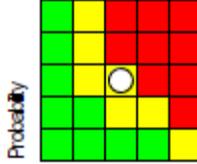
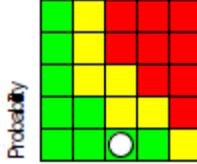
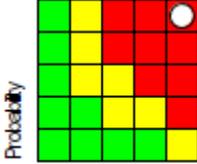
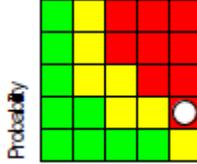
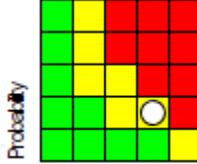
| Current Mitigation | Future Mitigation | Responsible Officer | Director | Target Date |
|--|---|--|--|-------------|
| Local Government settlement Budget Management process Contract management processes Savings programme in place Demand model in place Monthly demand reported to DMT - activity not just finance | Monthly budget monitoring to be put in place | Director of Adult Social Care and Health Integration | Director of Adult Social Care and Health Integration | 31-Mar-2024 |
| | Develop a demand model, that monitors performance across activity demand and unit costing, to understand 'current state'. | Samantha Stuart | | 30-Sep-2024 |
| | Develop a forecast model, that uses the 'current state' model, to predict activity demand and financials across Adults Social Care in the next 1/2/5 years. | Samantha Stuart | | 30-Nov-2024 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|-------|--|----------------|---------------|--------------|----------------------------------|
| SR-04 | Unlawful decision by the Council If the Council took a decision that was unlawful then there is a risk of legal challenge or regulatory action that could damage its reputation and its financial position. | 35 | 10 | 6 | Director of Legal and Governance |

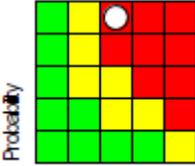
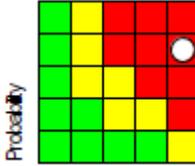
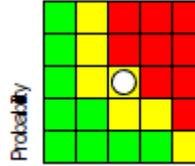
| Current Mitigation | Future Mitigation | Responsible Officer | Director | Target Date |
|--|---|---------------------|----------------------------------|-------------|
| Council constitution and supporting policy framework Corporate policies and procedures Compliance checks across key areas including HSE, Risk etc, covering the corporate governance framework Standard report formats Statutory officer posts to oversee governance Annual Governance Statement assessment process Internal and external audit processes Refreshed whistleblowing policy Legal and finance report clearance process | Refresh the committee report format | Ann-Marie Johnstone | Director of Legal and Governance | 31-Jul-2023 |
| | Review the report development process | Ann-Marie Johnstone | | 31-Jul-2023 |
| | Complete delivery of the Corporate Governance Improvement Plan | Ann-Marie Johnstone | | 31-Jul-2024 |
| | Complete delivery of the Section 24 Action plan | Ann-Marie Johnstone | | 30-Sep-2024 |
| | Progress report on improvement against the Best Value Notice by the independent Board considered by Council | Ann-Marie Johnstone | | 31-Mar-2024 |
| | Progress report on improvement against BV notice considered by Executive | Ann-Marie Johnstone | | 30-Sep-2024 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|------|------------------|----------------|---------------|--------------|------------|
|------|------------------|----------------|---------------|--------------|------------|

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|---|--|--|--|---|--------------------|--|
| SR-05 | Serious accident or death occurred as a result of failure to comply with Health and safety legislation and regulations | If a serious accident or death occurred as a result of failure to comply with Health and safety legislation and regulations then this could result in financial and reputational damage and individual prosecutions of staff. | 35 | 15 | 10 | Chief Executive |
| Current Mitigation | | Future Mitigation | Responsible Officer | Director | Target Date | |
| <p>Comprehensive suite of Health and Safety policies and procedures. Mandatory and complimentary Health and safety training for all Council staff. Dedicated HSE Advisor team Incident investigation system (My Compliance) to learn from incidents. HSE intranet page with important HSE information Audit schedule HSE steering group Fire Management System implemented across Council premises.</p> | | Fire Safety Management Policy Statement | Director of Regeneration; Gary Welch | Chief Executive; Director of Legal and Governance; Director of Regeneration | 31-Jul-2023 | |
| | | CEO to produce H&S Statement of Intent for the Council. | Chief Executive; Gary Welch | | 31-Jul-2023 | |
| | | Risk from reinforced autoclaved aerated concrete (RAAC) collapsing in maintained schools or other Council assets | Director of Regeneration; Richard Horniman | | 30-Aug-2024 | |
| | | Implementation of service area audits by the health and safety unit to give further assurance of sound HSMS within directorates. | Gary Welch | | 31-Mar-2025 | |
| Code | Risk Description | Original Score | Current Score | Target Score | Managed By | |
| SR-06 | Understand and implement the requirements of the social care reform | If the Council is unable to understand and implement the requirements of the social care reform, then it could be non-compliant with the law, incur unbudgeted financial pressures, have adverse inspection outcomes and as a result be exposed to reputational damage and budget pressures. | 25 | 10 | 10 | Director of Adult Social Care and Health Integration |
| Current Mitigation | | Future Mitigation | Responsible Officer | Director | Target Date | |
| <ul style="list-style-type: none"> Project in place with two dedicated staff Governance documentation in place etc | | | | Director of Adult Social Care and Health Integration | | |
| Code | Risk Description | Original Score | Current Score | Target Score | Managed By | |

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|---|---|--|--|--|--|--|
| SR-07 | Unable to recruit and retain key staff | If the Council is unable to recruit and retain key staff in Leadership Positions , then this could impact on their ability to provide effective leadership, deliver critical services which could cause harm to people and could result in government intervention. |  |  |  | Director of Legal and Governance |
| Current Mitigation | | Future Mitigation | | Responsible Officer | Director | Target Date |
| <p>Benchmarking salaries against other local authorities and similar roles in other disciplines to remain competitive. Work/life balance system such as agile working, 9 day fortnight, collaboration areas etc.. Advertising roles on multiple platforms such as LinkedIn and other social networking sites with the aim of reaching target audience.</p> | | Benchmark grades and salaries against NE local authorities | Kerry Rowe | ✔ | Director of Legal and Governance | 31-Jul-2023 |
| | | Review recruitment process | Nicola Finnegan | ✔ | | 31-Oct-2023 |
| | | Create new people and cultural transformation strategy | Nicola Finnegan | ✔ | | 31-Oct-2023 |
| | | review the people strategy after the first year of implementation | Nicola Finnegan | ▶ | | 31-Mar-2025 |
| | | Recruitment of Chief Executive and S151 Officer | Director of Legal and Governance | ▶ | | 31-Mar-2025 |
| | | Track delivery of first quarterly report to LMT on delivery against improvement plan | Nicola Finnegan | ▶ | | 31-Jul-2024 |
| Code | Risk Description | | Original Score | Current Score | Target Score | Managed By |
| SR-08 | Fail to ensure a sound approach to cyber security | |  |  |  | Director of Legal and Governance; Stephanie Bradley; Gemma Cooper; Ben Knudsen |
| Current Mitigation | | Future Mitigation | | Responsible Officer | Director | Target Date |
| <p>* Annual ICT healthchecks (Internal and external penetration testing). * Compliance with PSN and PCI standards. * Internal scanning as new systems go live. * Robust defence systems including firewalls, content filtering and endpoint protection. * Robust 60 day patching and maintenance cycle. * Test complete and continue to test.</p> | | Review Cyber Security Training Strategy | Stephanie Bradley; Ben Knudsen | 🛑 | Director of Legal and Governance | 30-Jun-2024 |
| | | Benchmark against Cyber Assessment Framework | Stephanie Bradley; Ben Knudsen | ▶ | | 01-Dec-2024 |
| | | Complete LGA Test and Exercise | Stephanie Bradley; Gemma Cooper; Ben Knudsen | ▶ | | 31-Aug-2024 |

| | | | | |
|---|--|--|--|--|
| * Healthcheck recommendations reviewed and implemented. * Membership of North East WARP and CiSP. * Use of Protective DNS. * Robust backup regime, including off-line tape backups to ensure recovery. | | | | |
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| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|-------|--|--|--|---|----------------------------------|
| SR-09 | Corporate Governance arrangement not fit for purpose If the Council's Corporate Governance arrangements are not fit for purpose and appropriate action is not taken to rectify this at pace , this could result, censure from the Council's auditors within a public interest report that would damage the Council's reputation and/or in government formal intervention including removal of powers from officers and members and direction of council spend. |  15 |  28 |  9 | Director of Legal and Governance |

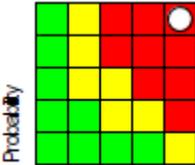
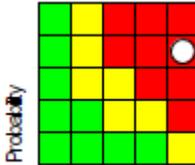
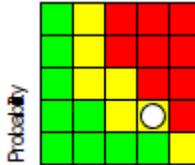
| Current Mitigation | Future Mitigation | Responsible Officer | Director | Target Date |
|---|--|---------------------|----------------------------------|-------------|
| External reports commissioned on Corporate governance and findings reflected within a Corporate Governance Improvement Plan Improvement Board in place Detailed improvement plan in place that has delivered a range of changes to corporate governance processes Annual Governance Statement process and supporting action plan. Draft AGSs in place for both 2021/22 and 2022/23 Regular reports to Audit Committee on aspects of corporate governance to provide assurance | Complete delivery of the Section 24 Action plan | Ann-Marie Johnstone | Director of Legal and Governance | 30-Sep-2024 |
| | Refreshed approach to corporate governance agreed by council | Ann-Marie Johnstone | | 31-Jul-2023 |
| | Corporate peer review held to assess process | Ann-Marie Johnstone | | 31-Jan-2025 |
| | Develop the detailed delivery plan | Gemma Cooper | | 30-Sep-2023 |
| | Progress report from MIIAB to Council by end March 2024 | Ann-Marie Johnstone | | 31-Mar-2024 |
| | Progress report from MIIAB to Executive by end July 2024 | Ann-Marie Johnstone | | 31-Jul-2024 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|------|------------------|----------------|---------------|--------------|------------|
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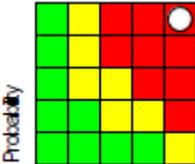
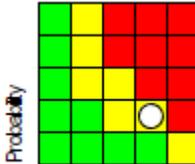
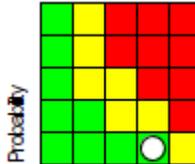
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|--|--|--|---|--|----------------------------|--------------------------|--------------------------|--------------------|
| SR-10 | Negative Impact of Mayoral Development Corporation | If the Council's ambitions for town centre regeneration or the wider financial sustainability of the organisation are negatively impacted by the establishment of a Mayoral Development Corporation that would take over some of the Council's existing statutory roles. This could potentially result in a lack of investment in the town, reduction in the Council's business rates income, loss of commercial income and reduction in asset holdings affecting the Council's financial viability. Reputational damage is also possible through the incorrect discharge of responsibilities such as town planning or business rate relief. | | | | Director of Regeneration | | |
| Current Mitigation | | | Future Mitigation | | Responsible Officer | | Director | Target Date |
| <p>Page 10</p> <p>Council representation on the board of the MDC Pushing for no detriment clauses in the MDC constitution Engagement with TVCA on the development of future MDC projects</p> | | | Heads of Terms agreed on individual asset transfers | | Director of Regeneration | | | 30-Jun-2024 |
| | | | Delivery of planning functions until robust alternative is in place | | Director of Regeneration | | Director of Regeneration | 31-Dec-2023 |
| | | | Agree robust business rates protocols | | Sue Blakey; Janette Savage | | | 30-Aug-2024 |
| SR-11 | Failed Partnerships | 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. | | | | Chief Executive | | |
| Current Mitigation | | | Future Mitigation | | Responsible Officer | | Director | Target Date |
| Partnership governance register in place. Partnership governance annual assurance report and supporting register in place to assess the health of key partnerships. Children's Controls All partnerships contain TOR - Partners contribute. External scrutiny of partnerships. New Mayor to chair Corporate Parenting Board. | | | Refresh of the Partnership Governance register | | Ann-Marie Johnstone | | | 31-Dec-2023 |
| | | | Community Cohesion | | Marion Walker | | Chief Executive | 19-Jul-2024 |

| | | | | |
|---|--|--|--|--|
| Formal reporting process in place - record of discussion and decision making. Adults Controls Victim support for those within ASC who require it. Additional resources as required, | | | | |
|---|--|--|--|--|

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|-------|--|--|--|--|---------------------------------|
| SR-12 | Fail to deliver quality practice within children's safeguarding services If the Council fail to deliver quality practice within children's safeguarding services then this may result in further government intervention, serious harm to individuals and loss of financial control. |  35 |  28 |  10 | Director of Children's Services |

| Current Mitigation | Future Mitigation | Responsible Officer | Director | Target Date |
|---|--|---|---------------------------------|-------------|
| Delivered Children's services improvement plan Improvement board in place External oversight of progress from DFE Monthly performance monitoring reports 43 | Implementation of post ILACs improvement plan | Director of Children's Care  | Director of Children's Services | 31-Jan-2024 |
| | Creation and recruitment to the head of Quality Principal Social Work Learning and Review | Director of Children's Care  | | 30-Sep-2023 |
| | Review progress in delivery of the ILACS improvement plan to assess progress and impact of actions | Director of Children's Care; Director of Children's Services  | | 30-Apr-2024 |
| | Complete delivery of the ILACs improvement | Director of Children's Care; Director of Children's Services  | | 31-Jan-2025 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|-------|---|---|---|--|--------------|
| SR-13 | Failure to deliver transformation successfully If the Council fails to transform its service delivery model to a model that can deliver outcomes for residents at a reduced cost base, then the Council's financial position will become untenable and may result in the issuing of a S114 Notice. |  35 |  10 |  5 | Gemma Cooper |

| Current Mitigation | Future Mitigation | Responsible Officer | Director | Target Date |
|--|---|---|----------|-------------|
| - PPMF in place - Transformation governance arrangements and reporting cycle agreed - Funding of £4.827m agreed by Council to fund transformation work | Failure of the Recover, Reset, Deliver Transformation Portfolio | Chief Executive  | | 31-Mar-2025 |
| | Failure of the Recover, Reset, Deliver Transformation Portfolio to identify further savings | Chief Executive  | | 31-Mar-2025 |

| | | | | | |
|--|---|-----------------|---|--|-------------|
| | Agree the content and approach of the transformation portfolio | Chief Executive | ✓ | | 30-Apr-2024 |
| | First cycle of Transformation governance arrangements scheduled | Gemma Cooper | ✓ | | 30-Apr-2024 |
| | Develop specification for transformation resourcing | Gemma Cooper | ✓ | | 30-Apr-2024 |

| Code | Risk Description | Original Score | Current Score | Target Score | Managed By |
|--|--|------------------------|---------------------|--------------------------|--------------------------|
| SR-14 | <p>Failure to ensure effective governance of the Middlesbrough Development Corporation</p> <p>If the Middlesbrough Development Corporation fails to reflect the relevant findings from the review of Teesworks governance in its structures, then there is a risk that it could fail to ensure value for money or good governance in its decision making, which will have an adverse impact on the economic vitality of the Town Centre.</p> | <p>35</p> | <p>10</p> | <p>10</p> | Director of Regeneration |
| Current Mitigation | | Future Mitigation | Responsible Officer | Director | Target Date |
| Teesworks report and commitment from TVCA to reflect findings in the governance arrangements of the MDC Council representatives on the MDC Board | | Refresh the Local Plan | Paul Clarke | Director of Regeneration | 31-Mar-2025 |

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| MIDDLESBROUGH COUNCIL |  |
|------------------------------|--|

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|-----------------------------------|--|
| Report of: | Director of Finance (S151 Officer) |
| Relevant Executive Member: | Executive Member for Finance and Governance |
| Submitted to: | Audit Committee |
| Date: | 25 July 2024 |
| Title: | Middlesbrough Council – Value for Money Interim Report – 2021/22 and 2022/23 |
| Report for: | Information |
| Status: | Public |
| Council Plan priority: | Delivering Best Value |
| Key decision: | No |
| Why: | Report is for information only |
| Subject to call in?: | No |
| Why: | Not Applicable |

Executive summary

The External Auditor, Ernst & Young (EY), has concluded their assessment work in relation to the Council's systems and arrangements for securing value for money on the use of resources within the organisation. This covers the period from 1 April 2021 to 31 March 2023. The report gives their main findings on the work undertaken to date.

The Committee will be aware that the audit of the accounts process for 2021/22 and 2022/23 are still open and awaiting government guidance on how to finalise.

In line with government proposals, EY have produced the attached value for money interim report. The findings of this overlap with the S24 recommendations issued by the external auditor in January 2023 and for which the Council has already made significant progress in addressing. The main issues therefore are already in the public domain.

The report also covers some other matters that the external auditor feels appropriate to report to the Committee, in line with their remit of overall governance for the Council.

These matters are highlighted below and the implications of these are considered, including where they may lead to previous accounts being amended and re-published.

1. Purpose

- 1.1 The purpose of the report is for Ernst & Young, the Council's External Auditor, to present their Value for Money interim report for the 2021/22 and 2022/23 financial years. This sets out their findings and commentary on the Council's systems and arrangements over this period and highlights any deficiencies that require improvement for the future.
- 1.2 It also covers some other findings that EY want to raise with the Committee following this work. These matters relate to either governance related issues or to the accounts for the relevant two-year period. Members will recall that the accounts for these financial years are still open and have not yet been signed off by EY.

2. Background and relevant information

- 2.1 EY's Value for Money interim report for 2021/22 and 2022/23 is attached at Appendix 1 and includes the following sections:

- Executive Summary
- Value for Money Commentary
- Other matters

- 2.2 The external auditor will present their report and main findings to the Committee.

- 2.3 The context of this report is different to normal reports received from the external auditor. The Committee is aware that there is a national backlog of local authority audits that are still outstanding from previous financial years. This position has arisen over several years as the audit of the financial statements has become more complex, local authorities' financial positions have become more fragile, and there has been problems with capacity on the required work within both local audit teams and local authority finance teams.

- 2.4 The government has undertaken consultations with the local authority sector, regulatory bodies (including external auditors) and other system partners to establish proposals to catch up on the current backlog. Draft proposals have been put forward but have not yet been introduced. As a result of this, there has been a period of uncertainty where the audit of the financial statements has been paused by EY awaiting further guidance. This has resulted in the work required to establish an audit opinion on the draft Statement of Accounts for 2021/22 and 2022/23 being incomplete and the accounts for these years remaining open.

- 2.5 The external auditor has instead concentrated on completing the work required for the audit of the Teesside Pension Fund accounts for these two years and that required to assess the Council's value for money arrangement for the same period. The interim report set out at Appendix 1 sets out EY's findings and conclusions from this work. It should be noted that although this is designated as an interim report on value for money. This relates to the report being issued prior to the audit opinion for these two years. There will be no final report issued on value for money at a subsequent stage.

2.6 In terms of the findings on value for money, many of these are already in the public domain due to EY previously issuing a set of Section 24 recommendations at the end of the audit process for the 2020/21 statement of accounts. These were issued as informal recommendations in July 2022 and then formalised in January 2023. The recommendations made already covered most of the period from 1 April 2021 to 31 March 2023 and have been reported to Audit Committee, Executive and Council previously, as has the Council's response, in terms of a corporate governance improvement and section 24 action plan.

2.7 To summarise, the main areas identified for improvement by the Council in the value for money interim report are as follows:

- Member and senior officer relationships.
- Asset acquisitions.
- Financial sustainability.
- Contracting and procurement
- Oversight of Middlesbrough development company.
- Provision of children's services. (Applicable for 2021/22 only).

2.8 The auditor's findings in these areas are set out in Appendix 1 and the main highlights from this will be presented by EY at the meeting. Clearly, time has moved on significantly from the end of March 2023 and the Council's response has been significant to address these shortcomings. However, EY need to report on these at the end of the relevant reporting periods and it is not within their remit to consider this progress as part of their assessment process. These will be picked up by the Council's new external auditor, Mazars, in their 2023/24 audit work, as this is the end of the five-year contract period for EY with the Council.

2.9 In terms of the other matters being reported, these can be summarised as follows:

- Presentation of the statement of accounts.
- Inspection of the accounts.
- Collection Fund provisions for impairment.
- Objections received within the reporting period.

2.10 In relation to the statement of accounts item raised, the Council accepts the points from EY and has made the appropriate changes in its 2021/22 and 2022/23 accounts. We have also introduced an internal consistency checker to ensure that these types of issues are identified during preparation for the 2023/24 accounts and subsequent years. This results from additional external resources being employed over the last year to help strengthen the resilience and capacity of the internal finance team.

2.11 On the Collection Fund item, Members will be aware that the re-assessment of the provisions for council tax and business rates is an important element of restoring the Council's earmarked reserves to a sustainable level following the 2023/24 financial year. Ongoing discussions have been held with EY over the last 12 months to evidence the council's proposed changes to the provisions held in the 2021/22 and 2022/23 accounts. This work, although ongoing, is substantially complete. As part of the agreement process with EY, there may be a need to slightly amend the previous year's accounts for this.

Where changes are required, the S151 Officer will re-certify and re-publish updated accounts on the Council's website for the relevant financial years. Any changes to prior year's figures will influence those in the draft accounts for 2023/24 which will be certified and published over the next month.

3. What decision(s) are being recommended

3.1 That the Committee:

- Note the contents of the value for money interim report for 2021/22 and 2022/23.
- Discuss any appropriate matters with the external auditors and officers, in terms of the matters being raised, and how they impact on future reports and accounts that may come to the Committee for approval.

4. Rationale for the recommended decision(s)

4.1 The Committee is required to receive and consider the external auditor's report as part of its governance role and responsibility in relation to audit activities.

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

5.1 *Financial (including procurement and Social Value)*

All relevant financial implications are contained within the report being presented by EY to the Committee, or in the above commentary. It should be noted that any audit fees from the remaining work on the 2021/22 and 2022/23 accounts have been provided for within the current financial year.

5.2 *Legal*

The certification and publication of the Statement of Accounts (covering the financial statements and the value for money opinion) is set out in the Accounts and Audit Regulations 2015 and subsequent amendments. The role of the external auditors within this is defined in the Local Audit and Accountability Act 2014. Any non-compliance with these requirements will be highlighted to Members where appropriate.

5.3 *Risk*

The report sets out how the external auditor has assessed the Council's value for money arrangements any other related items that need to be reported to the Committee.

The governance and value for money arrangements in place within the Council need to be robust when managing public money. It is the external auditor's role to consider these, provide assurance where appropriate, and report on any significant findings to those charge with governance under the Council's constitution.

The assessment by EY contains an element of reputational risk in how the Council has managed the various processes and as such, given its significant, is included within the Council's strategic risk register.

5.4 Human Rights, Public Sector Equality Duty and Community Cohesion

There are no specific impacts or implications.

5.5 Climate Change / Environmental

There are no specific impacts or implications.

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

There are no specific impacts or implications.

5.7 Data Protection

There are no specific impacts or implications.

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

| Action | Responsible Officer | Deadline |
|----------------|---------------------|----------|
| Not applicable | | |

Appendices

| | |
|---|--|
| 1 | Middlesbrough Council – EY Value for Money interim report for 2021/22 and 2022/23. |
|---|--|

Background papers

| Body | Report title | Date |
|---------------------------------------|--|-----------------|
| Audit Committee | Draft Statement of Accounts 2022/23 | 1 February 2024 |
| Audit Committee | Update on audit of accounts progress | 6 October 2023 |
| Corporate Affairs and Audit Committee | Timeline for Statement of Accounts | 29 June 2023 |
| Corporate Affairs and Audit Committee | External Audit – Value for Money governance update | 5 December 2022 |
| Corporate Affairs and Audit Committee | External Audit – Council Audit Planning report 2021/22 | 5 December 2022 |

Contact: Justin Weston, Head of Finance and Investment
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Middlesbrough Council

Value for Money Interim Report

Years ended 31 March 2022 and 31 March 2023

10 July 2024

10 July 2024

Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

Dear Audit Committee Members

Value for Money Interim Report up to and including 31 March 2023

We are pleased to attach our interim commentary on the Value for Money (VFM) arrangements for Middlesbrough Council. This commentary explains the work we have undertaken and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our interim findings for the audit years 2021/22 and 2022/23.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners to develop measures to address the delay in local audit. The National Audit Office (NAO) issued a consultation on 8 February 2024 seeking views on changes to the Code of Audit Practice (the Code) to support auditors to meet backstop dates and promote more timely reporting of their work on value for money arrangements. The consultation proposes to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. At this stage, we are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 July 2024.

Yours faithfully

Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary



02 Value for Money Commentary



03 Other Matters



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.psa.co.uk/auditquality/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 July 2021)” 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 Audit Committee and management of Middlesbrough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Middlesbrough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Middlesbrough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



BOARDROOM



01 Executive Summary



Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements published as part of the Auditor's Annual Report. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this interim commentary is to explain the work we have undertaken during the period 1 April 2021 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. It includes the significant weaknesses in arrangements we previously reported to full Council in our 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023.

This commentary covers our interim findings for audit years 2021/22 and 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

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The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there is a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation states that where auditors have begun or already undertaken work that no longer falls under the reduced scope (if agreed once the consultation closes), they may still report on it in accordance with Schedule 4. We are continuing to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are currently required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this interim report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the audit procedures performed to respond to the significant risks identified;
- Findings to date from our responsive procedures; and
- A summary of arrangements over the period covered by this report.

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report once the audit reports have been issued for 2021/22 and 2022/23.

Executive Summary (continued)

Risks of significant weakness

In undertaking our procedures to understand the body’s arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- Our cumulative audit knowledge and experience as your auditor;
- Reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- Our review of Council committee reports;
- Meetings with the Chief Executive, Director of Finance and Monitoring Officer (inc. current and previous postholders, where applicable);
- Information from external sources; and

Evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified a total of 6 significant risks as part of our risk assessment procedures, cutting across each of the three specified reporting criteria. We set out our identified significant risks and the procedures performed to respond to these risks in the table below:

| Description of risk identified | Work performed to address the risk of significant weakness |
|--|---|
| <p>Governance: Member and Senior Officer Relationships</p> <p><i>Applicable to 2021/22 and 2022/23</i></p> <p>As part of our 2020/21 audit, we reported significant weaknesses in the Council’s arrangements to secure value for money during the year to 31 March 2021 arising from strained relationships between the Council’s senior officers and elected members, and between elected members, and the impact of those on the effectiveness of the Council’s governance processes.</p> <p>The recommendations agreed with management to address these challenges were not agreed until July 2022, sixteen months after the end of the period under audit, therefore they were not in place during the year ended 31 March 2022 and implemented commenced during the year ended 31 March 2023.</p> <p>We therefore consider there to be a risk that these matters continued to have an adverse impact on the effectiveness of the Council’s governance processes.</p> | <ul style="list-style-type: none"> • We held regular discussions with stakeholders covering the relationships within the Council throughout 2021/22 and 2022/23 as part of the finalisation of our 2020/21 audit work, which was ongoing at the time, and commencement of our 2021/22 audit work. • We considered our own observations from direct interactions with officers and members, and from attendance at meetings of the Corporate Affairs and Audit Committee (Audit Committee from October 2023). • We made enquiries of management, and reviewed reports presented to full Council and the Improvement Board, to understand the Council’s progress against the Governance Improvement Plan. • We considered information brought to our attention through correspondence received from various stakeholders. We note that the volume of correspondence we receive in relation to the Council is significantly higher than we would expect for this type of entity. • We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting. |

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Executive Summary (continued)

Risks of significant weakness

Description of risk identified

Governance: Asset Acquisitions

Applicable to 2022/23 only

In February 2023, the Council purchased the Crown Pub from a private owner for £750,000. Following changes in senior management shortly afterwards, concerns emerged over the governance processes supporting the purchase and management requested that internal audit undertake a review of the acquisition. That review, which covered the events leading up to the purchase, concluded and reported in February 2024.

Given there was sufficient concern from management over the acquisition to request a review by internal audit, we consider there to be a risk that appropriate arrangements were not followed in the acquisition of this property.

Work performed to address the risk of significant weakness

- We reviewed the internal audit report into the acquisition of the Crown Pub for indicators of weaknesses in the Council's arrangements.
- We discussed the findings of the internal audit report with management, and observed the discussion of the internal audit report at the Council's Audit Committee.
- We evaluated whether the above indicates that a material weakness in arrangements was present during 2022/23, and considered the implications for our auditor reporting.

Financial Sustainability: Financial Sustainability

Applicable to 2021/22 and 2022/23

The Council experienced a significant deterioration in its financial position between April 2021 and March 2023, in part due to significant overspends within its Children's Services directorate in both 2021/22 and 2022/23.

A Financial Recovery Plan was implemented in October 2022, and the Council sought additional non-financial support from CIPFA as part of the budget setting process for the Council's 2023/24 budget.

We therefore consider there to be a risk that the Council did not have proper arrangements in place to manage its financial position.

- We held regular discussions with the Council's Section 151 officers, of which there were 3 between 1 April 2021 and 31 March 2023 (the latter being a temporary acting up of one of the Council's Deputy Section 151 officers prior to the interim appointment of the current Section 151 officer in April 2023), Head of Financial Planning and Support and Head of Finance & Investments to understand the Council's financial position and actions being taken to manage financial pressures.
- We reviewed the Council's quarterly Revenue and Capital Budget reporting to the Executive.
- We reviewed the Council's Financial Recovery Plan.
- We reviewed the report "A review of the Council's financial position, affordability, and financial outlook" produced by CIPFA in February 2023, and the Interim Director of Finance's Section 25 report on the Council's 2023/24 budget.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

Executive Summary (continued)

Risks of significant weakness

Description of risk identified

Improving Economy, Efficiency and Effectiveness: Contracting and Procurement

Applicable to 2021/22 and 2022/23

The Council undertakes significant procurement activity, contracting with a wide range of suppliers in support of the delivery of Council activities. Concerns were raised to us by senior management that one of the Council's larger contracts for external social work support, which ran throughout 2021/22 and was extended during 2022/23, may not have been procured in accordance with the Council's policies and procedures.

We therefore consider there to be a risk that the Council did not have proper arrangements in place with regards to contracting and procurement activities.

Work performed to address the risk of significant weakness

- We discussed the contract for external social work support with management to understand the nature of the concerns raised in relation to this contract.
- We reviewed the results of a fact-finding exercise into the external social work support contract performed by the Council's Director of Regeneration, as a member of senior management removed from the day-to-day activities of the contract.
- We utilised our EY Forensics specialists to perform a review of documentation and interviews with officers to confirm the facts in relation to the external social work support contract.
- We also utilised our EY Forensics specialists to perform a review of a sample of contracts awarded by the Council during 2021/22, to assess whether contracts were awarded in accordance with the Council's Financial and Contract Procedure Rules.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

Improving Economy, Efficiency and Effectiveness: Oversight of Middlesbrough Development Company

Applicable to 2021/22 and 2022/23

In February 2019, the Council established Middlesbrough Development Company as a subsidiary (called MHomes Limited at the time). The activities of the subsidiary were limited up to 31 March 2021, however the Council has delivered several significant capital projects through the subsidiary since 1 April 2021.

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

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

We therefore consider there to be a risk that the Council did not have proper arrangements in place with regards to oversight of its subsidiary.

- We reviewed the internal audit report into the governance arrangements in respect of Middlesbrough Development Company for indicators of weaknesses in the Council's arrangements.
- We reviewed the Executive committee paper in support of the decision to demise Middlesbrough Development Company.
- We discussed the findings of the internal audit report and content of the Executive report with management.
- We evaluated whether the above indicates that material weaknesses in arrangements were present during 2021/22 or 2022/23, and considered the implications for our auditor reporting.

Executive Summary (continued)

Risks of significant weakness

Description of risk identified

Improving Economy, Efficiency and Effectiveness: Provision of Children's Services

Applicable to 2021/22 only

On 24 January 2020, the Office for Standards in Education, Children's Services and Skills (Ofsted) released the results of its inspection of the Council's children's social care services performed between 25 November 2019 and 6 December 2019. The report concluded that the quality of the Council's children's services had deteriorated since the previous inspection in 2015 and were now inadequate.

Following publication of the Ofsted report, management developed an Improvement Plan to address the findings raised by Ofsted and an Independent Children's Commissioner was appointed to oversee progress against the Improvement Plan.

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Implementation of the Improvement Plan remained ongoing as of 1 April 2021, therefore we consider that there remains a risk that the Council did not have proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people within its children's social care services during 2021/22.

Work performed to address the risk of significant weakness

- We reviewed the reports of ongoing focused and monitoring visits performed by Ofsted for indicators of weaknesses in the Council's arrangements.
- We reviewed the 12-month report of the Independent Children's Commissioner, issued in July 2021, and the subsequent notification of withdrawal of the Independent Children's Commissioner issued to the Council in November 2021.
- We made enquiries of management to understand the Council's progress against the Children's Services Improvement Plan.
- We evaluated whether the above indicates that a material weakness in arrangements was present during 2021/22, and considered the implications for our auditor reporting.

Note: In our Audit Planning Report for the year ended 31 March 2022, issued in November 2022, we included the overspends within the Council's Children's Services as part of this risk and our planned audit response. We have since recognised a separate significant VFM risk in relation to financial sustainability (see previous pages), including the overspends within the Council's Children's Services directorate, and therefore narrow the scope of the previously reported risk to focus specifically on the underlying provision of children's services.

Executive Summary

Reporting

Our interim commentary for 2021/22 and 2022/23 is set out over pages 12 to 33. The interim commentary on these pages summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2021/22 and 2022/23. We include within the VFM commentary below the associated recommendation(s) we agreed with the Council.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this interim report, we have concluded that there is a significant weakness in the body's arrangements.

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| Reporting Criteria | Risks of significant weaknesses in arrangements identified? | Actual significant weaknesses in arrangements identified? |
|--|--|--|
| Governance: How the Council ensures that it makes informed decisions and properly manages its risks | <ul style="list-style-type: none"> Member and Senior Officer Relations (2021/22 and 2022/23); Asset Acquisitions (2022/23 only) | <ul style="list-style-type: none"> Member and Senior Officer Relations (2021/22 and 2022/23); Asset Acquisitions (2022/23 only) |
| Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services | <ul style="list-style-type: none"> Financial Sustainability (2021/22 and 2022/23) | <ul style="list-style-type: none"> Financial Sustainability (2022/23 only) |
| Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services | <ul style="list-style-type: none"> Contracting and Procurement (2021/22 and 2022/23); Oversight of Middlesbrough Development Company (2021/22 and 2022/23); Provision of Children's Services (2021/22 only) | <ul style="list-style-type: none"> Contracting and Procurement (2021/22 and 2022/23); Oversight of Middlesbrough Development Company (2021/22 and 2022/23) |

The volume and breadth of significant weaknesses in the Council's arrangements during both 2021/22 and 2022/23, and the fact they cover all 3 of the reporting criteria against which the Council's arrangements are assessed, is of significant concern. Whilst management has taken steps since the end of the periods being reported on to address these weaknesses (see pages 31 to 33), it is likely to take sustained effort over a period of time for the Council to fully address all of the weaknesses in its arrangements identified and demonstrate that it has robust arrangements to secure value for money in its use of resources.



Executive Summary

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

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:

[EY UK 2023 Transparency Report | EY UK](#)



02

Value for Money Commentary

Value for Money Commentary

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

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

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

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

The Corporate Affairs and Audit Committee (restructured into the Audit Committee post 31 March 2023) receives reports on the Council's internal control environment from internal and external audit and monitors the implementation of recommendations to address identified weaknesses.

Page 63
In our value for money commentary for the year ended 31 March 2021, we reported that we had observed evidence which led us to conclude that the culture and governance arrangements at the Council had not been operating as expected and that this was undermining the effectiveness of the Council's governance framework. In addition, we reported our observation that there was a pervasive lack of trust within the Council between officers and elected members, and between elected members, which was having a significant impact on the governance of the Council and was a contributing factor to the respective roles and responsibilities of officers and members not being adhered to. The recommendations agreed with management to address these challenges were not agreed until July 2022, therefore they were not in place during the year ended 31 March 2022, and management acknowledged at the time that relationships at the Council had continued to deteriorate beyond 31 March 2021.

Also in July 2022, the Council's Chief Executive and Section 151 Officer provided an update to the Corporate Affairs and Audit Committee which articulated that, at that time, they did not feel able to sign the Council's Annual Governance Statement for the year ended 31 March 2021 on the grounds that the statement did not fully reflect the size and scale of the cultural change required at the Council.

Alongside our value for money commentary and management's update on the Annual Governance Statement, the July 2022 meeting of the Corporate Affairs and Audit Committee was presented with a joint paper from the Council's Chief Executive, Section 151 Officer and Monitoring Officer entitled 'Commencing a Corporate Governance Improvement Journey' which sought endorsement from the committee to appoint the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake an initial diagnostic piece of work to better understand the cultural and governance issues which exist within the Council and propose further steps to address these. The committee provided the requested endorsement and the CIPFA review commenced in late July 2022.

Following interviews with over 40 individuals from across the Council, including members of the Executive, political group leaders and senior officers, and a review of other documentation, CIPFA issued the results of their review in September 2022. The review further highlighted the significance of the cultural and governance issues at the Council, concluding:

"It is clear from what we have seen that the issues facing the Council are significant. They are having a negative impact on the culture of the Council and, as identified by the External Auditor, affecting the Council's ability to deliver good governance. In the context of what will be a very difficult 2023/24 budget settlement, and a cost-of-living crisis that is affecting the lives of the citizens of Middlesbrough, the issues identified in this report have the potential to increase the risk that the Council will not be able to deliver its priorities.

Value for Money Commentary

The Council has an opportunity to make considerable improvements, but not without acceptance that the issues contained in this report are real, serious and need resolution.”

Alongside their observations, CIPFA recommended the development of an action plan to address the issues raised and the use of cross-party working groups to involve members in this process. The CIPFA report and recommendations, alongside management’s proposal for an Improvement Board to oversee the action plan was presented to, and approved by, a meeting of the full council in October 2022.

An updated version of the Annual Governance Statement for 2020/21 was also produced which included additional narrative highlighting further deterioration in relationships at the Council since 31 March 2021, concerns that there was insufficient acceptance of the significance of the cultural issues at the Council and their impact on the Council’s governance processes and, consequently, that there are significant risks to the Council being able to deliver the necessary improvement. Similar concerns regarding the acceptance of the scale of issues at the Council and the Council’s ability to deliver improvement were also raised to us by multiple elected members of the Council.

The Improvement Board was led by an independent chair from the Local Government Association, and membership included the Council’s Mayor, the Executive Member for Finance and Governance, the Chief Executive, the Monitoring Officer, political group leaders and a representative from CIPFA. The Improvement Board was supported by four task and finish sub-groups focusing on roles and responsibilities within the Council, training and development, the Council’s Constitution and the culture and communications within the Council. The first meeting of the Improvement Board took place on 2 November 2022, at which the Board approved its terms of reference and an action plan based around 30-, 60- and 90- day milestones. Establishment of the task-and-finish working groups and agreement of the 30-, 60- and 90- day milestones was considered ‘phase one’ of the Council’s Corporate Governance Improvement Plan.

In January 2023, the Council was issued with a Best Value notice by the Department for Levelling Up, Housing and Communities (DLUHC) in relation to the weaknesses in the Council’s arrangements reported in our value for money commentary.

In February 2023, the Council reported to the Governance Improvement Board that all of the 30- and 60- day actions had been delivered, along with 6 of the 27 90-day actions. It was also reported that ‘phase two’ of the Corporate Governance Improvement Plan had been substantially completed and that outstanding actions would be incorporated into ‘phase three’. The Board agreed to seek finalisation of the actions for phase three of the Corporate Governance Improvement Plan ready for approval by the Board at the end of March 2023.

Also in February 2023, 17 of the Council’s members wrote to the Council’s Chief Executive to express a loss of confidence in their leadership of the Council, citing the assessment of the Council’s Children’s Services in December 2019 as inadequate, the cultural and governance issues raised in our value for money commentary and a deterioration in the Council’s financial position.

The letter sought the immediate resignation of the Chief Executive, and its signatories included the leaders of several of the Council’s political groups, several committee chairs and more than half of the Council’s Executive. On 10 March 2023, the Corporate Affairs and Audit Committee approved the terms of the Chief Executive’s departure from the Council and he formally left the Council on 24 March 2023. We note that external legal advice was sought by the Council as to whether the terms of the Chief Executive’s departure represented value for money and were proportionate and appropriate prior to being submitted to the Corporate Affairs and Audit Committee for approval. External legal advice was also sought on the correct committee, under the Council’s Constitution, to approve such terms.

Value for Money Commentary

Also during March 2023, the Council agreed the early termination of the interim appointment of the Section 151 Officer which had been due to conclude in June 2023. The Interim Section 151 Officer left the Council on 31 March 2023.

Both the Chief Executive and Section 151 Officer posts were subsequently filled by interim appointments in March and April 2023, respectively. Between the departure of the previous Interim Section 151 Officer and the appointment of the new Interim Section 151 Officer, the Council designated the Head of Financial Planning and Support as the Council's Section 151 Officer.

As part of the follow-up of the Best Value notice by DLUHC, senior officers met with representatives of the Department on a fortnightly basis to discuss the Council's progress. As these meetings developed, the Department's interest has expanded beyond the cultural and governance issues which were the focus of the Best Value notice to also include the Council's Children's Services Improvement Plan, the Council's financial position and the high levels of turnover in senior management positions.

Given the Council's response to the recommendations made in our value for money commentary for the period ended 31 March 2021 did not commence until July 2022, and both officers and members have reported a continued deterioration of relationships during 2021/22, it is clear that the significant weakness in arrangements reported in 2020/21 in relation to member and senior officer relationships remained a significant weakness throughout 2021/22.

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During 2022/23, the Council did take positive actions to respond to our recommendations, including the commissioning of external work by CIPFA to assist in identifying the root causes of relationship issues at the Council and an action plan to address them, implementation of an Improvement Board with an external chair and strong representation from elected members and senior officers, and reporting of these actions through full council. These steps are in-line with those we expected to see from the Council in responding to our previous recommendations.

It is however clear that there was also significant concern amongst a number of stakeholders over the ability of the Council to deliver on these actions, characterised by expressions of a lack of confidence in the acceptance by individuals of the significance of the governance issues identified at the Council and the commitment of all necessary stakeholders towards meaningful change. The events of February and March 2023 demonstrate that strained relationships at the Council remained a significant influence upon the effectiveness of governance as of March 2023, therefore we conclude that this significant weakness was not satisfactorily addressed during 2022/23 and consider a significant weakness to have existed during this period as well.

We therefore conclude that member and senior officer relationships was a significant weakness in the Council's arrangements during both 2021/22 and 2022/23.

We previously reported our conclusion that the Council had not made satisfactory progress in addressing this significant weakness in arrangements reported in our value for commentary for 2020/21 as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

- 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.**

Value for Money Commentary

One of the four areas of focus for the task-and-finish groups supporting the Council's Improvement Board was focused on the Council's Constitution. During the course of our assessment of the Council's arrangement and our response to the risks of significant weaknesses we identified, we noted several areas of poor practice within the Council's Constitution in effect during the periods 2021/22 and 2022/23 and its implementation within the Council including:

- There are multiple references within the Constitution to job titles or grades which are not otherwise used by the Council. We noted differing interpretations within the Council as to how these terms map onto the job titles and grades which are in use within the Council, resulting in a lack of clarity as to how the responsibilities and approval requirements defined within the Constitution in reference to such job titles and grades should be applied;
- Article 17 of the Constitution specifies that the Financial and Contract Procedure Rules (Standing Orders) are part of the Constitution and that "all financial transactions and contract proceedings must be carried out in accordance with the Middlesbrough Borough Council Financial and Contract Procedure Rules". The Financial and Contract Procedure Rules should therefore be a key document for the Council, however it is our assessment that there is a limited understanding of the requirements of the Financial and Contract Procedure Rules within the Council. As a result, non-adherence to the requirements of the Financial and Contract Procedure Rules is pervasive within the Council and practices which do not meet the requirements of the Financial and Contract Procedure Rules are well established and widely adopted. This is a contributory factor to several of the significant weaknesses in arrangements highlighted in this commentary; and

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Prior to submitting the terms of the Chief Executive's departure to the Corporate Affairs and Audit Committee for approval, the Council sought legal advice as to the correct committee under the Council's Constitution to make this decision. This advice relied upon Article 16 of the Constitution which states that the Corporate Affairs and Audit Committee has delegated powers to "deal with any matter, which is not an Executive function and that has not delegated to any other committee of the Council". In effect, this Article establishes the Corporate Affairs and Audit Committee as the committee of default or last resort for all non-Executive decisions. In our view, it is not appropriate for the audit committee-equivalent body to take such decisions as it creates a risk of conflicts of interest for the committee between decision making processes and the independent challenge to decisions which such bodies should provide.

These observations were also reported as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendation we issued to the Council in respect of the Council's Constitution:

- 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.**

In December 2021, the Council contacted the owners of the Crown Pub, a prominent vacant building within the town centre, requesting engagement from the property's owners in respect of the property. The letter sent by the Council to the property's owners noted the poor condition of the property and its detrimental impact upon the town centre, and highlighted the possibility that the Council could pursue a compulsory purchase of the property if arrangements to bring the property back into use could not be established.

In July 2022, a representative of the property's owner contacted the Council to discuss planning principles in advance of a submission for planning permission for the site. Around the same time, the Council submitted an application to the Levelling-Up Fund for £20 million of funding to support the regeneration of the town centre. Included within the £20 million of sought funding was £7.5 million for redevelopment of the Crown pub site.

Value for Money Commentary

Between August 2022 and November 2022, there was regular contact between the Council and representatives of the property's owner culminating in a meeting on 29 November 2022 between the Council's Chief Executive and the property owner's representative where potential purchase of the property by the Council was discussed. No other officers attended this meeting and it was not minuted. Following this meeting, the property owner's representative e-mailed the Chief Executive to confirm an openness to selling the Crown Pub to the Council and cited a price of £750,000.

On 24 January 2023, the Council's Executive approved the purchase of the Crown Pub for £750,000. The supporting paper provided to the Executive in support of this decision, which is required by The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 to be published at least 5 clear days before the date of the Executive meeting, included reference to the property being included in the Council's bid to the Levelling-Up Fund and estimated that up to £7 million might be needed for restoration and structural works to bring the property up to the required standard for future use (though no commitment to restoration work was made as part of the Executive decision taken). Between issuance of the supporting paper and the date of the Executive meeting, the Council learnt that its bid to the Levelling-Up Fund had been unsuccessful however this was not communicated to the Executive prior to the decision to acquire the Crown Pub being made.

Following the changes in senior management shortly after the acquisition, the Council's new Interim Chief Executive requested a review of the purchase of the Crown Pub by internal audit. In addition to the failure to notify the Executive that the bid to the Levelling-Up Fund for funding to purchase and redevelop the Crown Pub had been unsuccessful, the internal audit report highlighted a number of other weaknesses in the governance processes supporting the Council's acquisition of the property, including:

It is unclear why the Crown Pub site was identified by the Council as a particular site of interest from December 2021, having not previously been included on lists of priority 'eyesore' sites produced in June 2020 or September 2021. The Council is therefore unable to demonstrate the relative merits of pursuing this site for redevelopment over other sites within the town;

- The Council did not produce a meaningful business case in support of the purchase which would have set out the pros and cons to inform any decision to purchase the property, with internal audit describing the business case which had been produced as "*superficial and did not present a detailed analysis of the case for purchasing the property*". The absence of a robust business case also meant that the Council did not have a clear plan for the future use of the property, and therefore lacked a detailed assessment of the investment into the property which would be required post-acquisition. The potential structural and redevelopment costs cited in the Executive report were also likely to be inaccurate as the Council did not complete a detailed survey of the property prior to purchase;
- Poor communication between the Chief Executive and other officers resulted in the property owner's initial proposal of a purchase price of £750,000 being understood by officers as having been agreed by the Chief Executive. As a result, the Council did not seek to negotiate on the purchase price despite the Council's own valuation valuing the property at just £460,000. Officers also reported to internal audit feeling that they were being asked to complete the purchase at pace without time to complete proper due diligence on the purchase; and
- Elements of the report submitted to the Council's Executive in support of the decision to purchase the property were assessed by internal audit as "*either missing or misleading*". In addition to the factors already noted above, this included the report giving an impression that the purchase process was at a less advanced stage than it really was, that a decision by DLUHC on the Council's application to the Levelling-Up Fund was further away than it actually was (the report referred to a decision being due "in the spring") and references being made to the potential future transfer of the property to Middlesbrough Development Corporation without appropriate highlighting of the uncertainty of this (at the time of the report, Middlesbrough Development Corporation had not yet been established and any assets to be transferred to it remained subject to further decision making outside of the Council's control).

Value for Money Commentary

In our view, there are clear indicators that the cultural and governance weaknesses at the Council were evident in the way the purchase of the Crown Pub was completed. There are however also further clear indicators of weaknesses in the Council's processes in support of asset acquisitions which we consider to demonstrate a separate significant weakness in the Council's arrangements during 2022/23. We therefore conclude that asset acquisitions was a significant weakness in the Council's arrangements during 2022/23 and make the following recommendations:

4. We recommend that management develop an action plan to address each of the recommendations raised by internal audit in their report into the acquisition of the Crown Pub.
5. We recommend that management review the processes for identifying and communicating where the facts or conditions set out in committee papers change between the date on which papers are published and the date on which the committee meeting is held, to ensure that where there are changes in circumstances relevant to decisions being made this is shared with decision makers prior to decisions being taken.

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

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

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

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

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

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

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

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

Value for Money Commentary

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

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

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

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

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

Elected members are required to complete annual declarations of any potential conflict of interest, which are maintained on a register by the Council. A gifts and hospitality register is also maintained and available for public inspection. Recommendations in relation to elected member training on declarations of potential conflicts of interest and the Council's assurances over the completeness of such declarations were made as part of our commentary on the Council's arrangements for the year ended 31 March 2021 and incorporated into the Council's Corporate Governance Improvement Plan from July 2022.

Value for Money Commentary

Financial Sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services

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

The impact of changes to the Council's financial plans are modelled through a minimum of 3 years as part of the MTFP and any resulting budget gap over that period quantified and incorporated into the following budgeting cycle. The Council aims to meet the costs of its day-to-day activities from available funding, but borrows for capital investment purposes. The impact of planned borrowing (i.e. interest charges) is incorporated into the Council's revenue budget and MTFP.

Under the Council's constitution there is a clear delineation between the responsibility for setting the Council's strategic objectives, which sits with members and the Executive, and the responsibility for delivery of the operational activities which underpin the strategic objectives, which sits with officers.

Budget holders work with finance business partners to maximise the outcomes achieved for the allocated budget. The Council recognises that certain costs, such as social care, are demand-led and mitigations for overspends are addressed to a greater extent at directorate or council level rather than by individual budget holders for these areas.

Page 70 For the year ended 31 March 2022, the Council reported an overspend of £2.5 million against its budgeted outturn and a further net impact of £0.4 million from the direct impacts of the Covid-19 pandemic which the Council reported separately to its main budget. Within the overall overspend of £2.5 million, the Council reported an overspend of £7.9 million by its Children's Services directorate, equivalent to 19% of the Children's Services budget, which was offset by underspends in other parts of the Council. In October 2021, the Council adopted a Flexible Use of Capital Receipts Strategy under which it released £5 million of capital receipts, against qualifying revenue expenditure intended to transform its services, to its General Fund for the year ended 31 March 2022 to offset the overspends against its budget. The Council also increased the budget of its Children's Services directorate by £6 million, 15% of its prior year budget, for the year to 31 March 2023.

The Council was ultimately able to manage its financial position through 2021/22 without a reduction to its core reserves, and through setting a budget for 2022/23 which included a significant increase to its Children's Services budget was taking steps to address the areas of financial pressure during 2021/22. We are therefore content that the Council had proper arrangements during 2021/22 to manage its financial position, however there were increasing warning signs of the challenges the Council would face during 2022/23.

By September 2022 the Council was forecasting a full-year overspend against budget of £7.7 million for Children's Services and £9.4 million for the Council as a whole. The Council attributed the anticipated overspend to a combination of pressures relating to additional inflation, an increased pay award, and increased demand, placement and agency costs within Children's Services.

In October 2022, the Council implemented a Financial Recovery Plan which sought to make additional savings of £6.9 million and generate additional revenue of £0.5 million to mitigate the majority of the anticipated overspend against budget. The Council was able to deliver £4.8 million of the £7.4 million aggregate impact of savings and additional revenues under the Financial Recovery Plan, which contributed to the final overspend for the year to 31 March 2023 being reduced to £3.5 million. Further flexible use of capital receipts was used to release £0.8 million to the General Fund to partially offset the impact of this overspend on reserves.

The final overspend within Children's Services for the year to 31 March 2023 was £10.7 million excluding the impact of flexible use of capital receipts, equivalent to 21% of its revised budget including reallocations from other directorates during the year totalling £5.5 million as well as the increase from the prior year.

Value for Money Commentary

The Council has recognised that the budget baselines for its Children's Services directorate are not deliverable and sought to 'reset' its budget through a £17 million increase to its Children's Services budget for the year to 31 March 2024, including £5.2 million included in the Children's Services budget for the year to 31 March 2023 on an initial temporary basis being made permanent, applied on top of general increases for inflation and pay growth. In order to afford this increase, the Council's budget for the year to 31 March 2024 also includes £9.4 million of required savings and a requirement for an additional £1.2 million from opportunities for additional income generation. This was a significant change and challenge for the Council, which has not had to include savings targets within its budgets for a number of years.

To provide assurance to its members over the scale of required savings, the Council requested an independent review by CIPFA of its financial position, budget affordability, and financial outlook. This review concluded that "CIPFA expect that the Council will produce a balanced budget for 2023/24", however it also concluded that "It is not possible for CIPFA to have confidence in the delivery against the savings targets identified for Childrens Services". The review also raised concerns over the low levels of reserves held by the Council, noting "The Council needs to be very clear that there is no or very limited scope for central funding of overspends" and "Failure to deliver the planned savings will place the Council at the risk of having to issue a Section 114 Notice with expenditure likely to exceed financial resources available to the Council". It is our understanding that circulation of a draft version of the CIPFA report within the Council was a significant factor in the decision by 17 of the Council's members to write to the Council's Chief Executive to request their resignation, as noted earlier in this commentary.

The Council ended the 2022/23 financial year with a General Fund balance of £12 million and unrestricted usable reserves of £2.8 million. With planned savings and additional income generation of £10.6 million built into the 2023/24 budget, the Council has minimal financial headroom available to absorb future financial pressures or the non-achievement of planned savings and, as at 31 March 2023, there was a very real risk that the Council would need to issue a Section 114 Report within the following financial year (though this did not ultimately occur). A Section 114 Report arises when the Council's Section 151 Officer believes that the expenditure of the Council will exceed the resources available to it for the current financial year, or that the Council is unable to set a balanced budget for the following financial year, and would require the Council to cease all new expenditure other than that supporting functions which are required by statute to be delivered.

The Council is in a strained financial position and faces significant financial challenges, including high levels of demand for its social care services and the impact of inflation. Whilst the Council has taken steps to address these challenges, including a 'reset' of its Children's Services budget and implementation of both financial recovery and savings plans, these actions have not been able to stabilise the deterioration in the Council's financial position. Without more significant intervention during 2023/24, the Council was, at 31 March 2023, highly likely to deplete its limited remaining reserves over the following 12-18 months and, in effect, run out of resources.

We are therefore unable to conclude that the Council has had proper arrangements in place to manage its financial position during 2022/23 and conclude that the absence of such arrangements represents a significant weakness in the Council's arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place to manage its financial position as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

- 6. 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.**

Value for Money Commentary

7. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
8. 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 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned.

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

The Council undertakes an annual exercise to set its annual budget for the following financial year and to update its Medium Term Financial Plan (MTFP), which covers the following three years. Key inputs to this exercise include the Local Government Finance Settlement, service demand led pressures & savings, grant funding changes, inflation and other spending and income policy adjustments.

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

Financial resilience is tested against various scenarios within the financial strategy, medium term financial plan modelling, capital strategy and treasury management strategy. Responses to financial pressures are developed in conjunction with service directors and key assumptions are tested before they are incorporated into the MTFP through regular presentations to, and discussions with, the Leadership Management Team and Executive.

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

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

As part of the annual budget setting exercise, the Council identifies the level of savings required to match the anticipated net cost of services to the levels of available funding. Where possible, the Council looks to use its revenue reserves as appropriate to smooth the impact of any savings targets over the 3-year MTFP period rather than seeking large savings over short periods of time. Budget gaps of £0.858 million in the 2022/23 budget and £12.059 million in the 2023/24 budget were identified.

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

Value for Money Commentary

The level of savings identified and incorporated into the Council's budget exceeds the required level of savings to provide additional buffer against the non-achievement of planned savings. No required savings were identified within the 2022/23 budget, however identified savings within the 2023/24 budget exceeded required savings by £1.5 million.

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

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

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

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

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

The Council maintains a number of earmarked reserves, which represent amounts set aside from the Council's General Fund to be used for specified purposes in the future. Management use earmarked reserves to allow for known or potential future cost pressures.

In addition, the Council sets a minimum level for its General Fund in order to ensure that the Council does not fully deplete its reserves through normal activities. The Council's assessment of the minimum reserves which should be held in the General Fund has increased as a result of known financial pressures and uncertainties. A minimum reserve balance of £11 million applied during 2021/22, an increase from £9.4 million in 2020/21, and was increased to £12 million in the Council's budgets for 2022/23 and 2023/24.

The Council's MTFPs produced during 2021/22 and 2022/23 included a balanced budget for the following year and indicative budgets for the two subsequent years. The 2022/23 MTFP forecast a balanced budget in 2023/24 and a budget deficit of £2.3 million for 2024/25. In the Council's 2023/24 MTFP the deficit for 2024/25 had increased to £2.7 million and a similar £2.7 million deficit was forecast for 2025/26. Plans to address these deficits form part of the Council's MTFPs for future periods.

Value for Money Commentary

Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers services

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

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

The Council has a Strategic Procurement Strategy and Contract Management Framework which are used to provide a framework for the commissioning of services and evaluation of the services received under awarded contracts. The monitoring of the performance received from suppliers is integrated into the Council's overall processes for monitoring the delivery of its services to service users, as detailed below.

In February 2020, the Council's Executive approved the commissioning of external social work audit support for children's services as part of the Council's Children's Services Improvement Plan. The Council awarded this contract as a direct award to the preferred supplier under the permitted exemption within the Financial and Contract Procedure Rules for "social care services under the National Health Services and Community Care Act, 1990 or the Children Act, 1989". The contracted services were assessed by the Council's procurement team as falling within this definition, however this was not confirmed by the Council's legal team.

In July 2020, the Council directly awarded a second contract to the same supplier to provide an external team of social workers to assist the Council with the ongoing Children's Services Improvement Plan. The documented rationale for direct award of the second contract was a combination of the social care-basis used for the first contract and a further permitted exemption under the Financial and Contract Procedure Rules "for work, supplies and services which are patented or of a proprietary or special character and for which it is not possible or desirable to obtain competitive prices". The Council's Executive gave retrospective approval for the contract on 14 July 2020, and in November 2020 approved a further 24 month extension of the contract.

Also in November 2020, the Council awarded a third contract to the supplier for a second external team of social workers for an intended duration of 6 months. The Council asserts that this contract was approved through the 'Gold Command' process in place during the Covid-19 pandemic, however we have been unable to find reference to it in relevant minutes from that period. We have also been unable to establish the basis on which the contract was deemed exempt and directly awarded to the supplier. This contract was also subsequently extended, however no formal approval for this extension was documented.

In August 2022, the Council awarded a fourth contract to the supplier for a third external team of social workers. No formal approvals or exemptions were sought prior to entering into this contract. Concerns about the awarding of this contract were raised by the Council's procurement team, with a subsequent investigation by the Council confirming that the Council's policies and procedures had not been followed in the awarding of the contract.

Subsequent to the contract awards and extensions documented above, the Council continued to extend the second, third and fourth contracts until April 2023 (second contract) and May 2023 (third and fourth contracts). The Council estimates that total expenditure under these four contracts to May 2023 was £4.3 million. This significantly exceeds the thresholds under which direct award of contracts is permitted under both the Council's Financial and Contract Procedure Rules and The Public Contracts Regulations 2015. Whilst this amount relates to the four contracts in aggregate, three of these contracts individually exceed the £663,540* threshold at which the Council is required undertake a competitive tendering exercise under The Public Contracts Regulations 2015. It is therefore our view that in addition to failing to comply with its own Financial and Contract Procedure Rules, the Council has failed to comply with applicable procurement law in the awarding of these contracts.

* Threshold represents the level effective from January 2022. Lower thresholds applied prior to this date.

Value for Money Commentary

Where a contract is awarded under the reduced requirements of The Public Contracts Regulations 2015 (commonly referred to as being under the 'Light Touch Regime'), The Public Contracts Regulations 2015 place restrictions on the subsequent modifications which may be made to the contract whilst remaining within the scope of the reduced requirements. Such modifications may include extension of the original contract or a change in the scope of the contract. The Council has been unable to demonstrate that it has controls in place to monitor and assess whether modifications to its contracts made after the initial award fall within these criteria, therefore we consider there to be an increased risk that the Council may have other contract arrangements which are not in accordance with The Public Contracts Regulations 2015.

The majority of activity in procuring these contracts occurred within the Council's Children's Services directorate and was unknown to the Council's procurement team. Accordingly, the Council had not recorded any of these contracts on its contracts register. Since the Council's procurement team became aware of these contracts, a control has been implemented to reconcile larger items of expenditure recorded by the Council to known contracts in order to identify any additional unrecorded contract arrangements which may exist. Prior to late 2022 however, the Council had no such control in place and hence is unable to demonstrate that these contracts are an isolated occurrence.

A review of those contracts which the Council had recorded on its contract register as awarded between 1 April 2021 and 31 March 2022 found that of a sample of 12 contracts entered into by multiple directorates, 7 were awarded using some form of exemption. In each case, the application of the exemption had been approved by the Service Head and Head of Commissioning and Procurement however there was no further documented approval. Under the Council's Financial and Contract Procedure Rules, all exemptions require approval by the Section 151 Officer. Other than in a limited number of specified circumstances, the Financial and Contract Procedure Rules also require that exemptions are approved by the Council's Monitoring Officer. There is no requirement under the Financial and Contract Procedure Rules for exemptions to be approved by the Head of Commissioning and Procurement.

It is evident to us that the Council has a well established informal and undocumented practice when it comes to application of procurement exemptions which is neither compliant with the requirements of the Financial and Contract Procedure Rules or as robust. Whilst the procurement of the four social care contracts, or at least aspects of them, appear to have also occurred outside of this informal practice, the widespread non-adherence to the Council's formal policies and procedures is likely to have been a contributory factor as to why this occurred.

In our view, non-adherence to the Council's Financial and Contract Procedure Rules was pervasive within the Council during both 2021/22 and 2022/23 and significantly increases the risk that exemptions were applied inappropriately and that the Council is not able to demonstrate that it was securing value for money in its procurements. We consider that this is a significant weakness in the Council's arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place with regards to contracting and procurement as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

9. **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;**
10. **We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to; and**

Value for Money Commentary

11. 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 remedial action is necessary.

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

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

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

In September 2022, the Council concluded its first review into the partnership arrangements recorded on its Partnership Register since its Partnership Governance Policy was introduced in 2019/20, and intends for this to become an annual exercise.

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

In February 2019, the Council established MHome Limited as a subsidiary company with the intention of using it as a housing delivery vehicle. Following a change in political administration in the May 2019 election, the subsidiary was rebranded as Middlesbrough Development Company and the Council changed the proposed focus of the subsidiary away from housing delivery and towards urban regeneration projects. This corresponded with a change by the Council itself towards a more expansive capital programme focusing on redevelopment of Middlesbrough town centre. During 2021/22 and 2022/23, Middlesbrough Development Company oversaw two large capital projects on behalf of the Council, the development of Boho Village and the redevelopment of the former Tollesby Shops site, along with a number of smaller scale projects to restore empty homes and 'eyesore' sites. The activities of Middlesbrough Development Company are funded through a combination of loan and grant funding provided by the Council.

In May 2021, 5 of the 7 members of the Council's Executive resigned citing a number of concerns over the conduct of the Council's Mayor and the Council requested the Council's internal auditor investigate the concerns raised. We reported on the results of these investigations within our value for money commentary on 2020/21, however follow-up work by internal audit in relation to the governance of Middlesbrough Development Company was deferred in anticipation of additional good practice guidance being published by CIPFA.

In May 2022, CIPFA published 'Local Authority Owned Companies: A Good Practice Guide' and the Council requested that internal audit undertake an assessment of the governance of Middlesbrough Development Company against this good practice guidance. The Council's internal auditor undertook this review as an advisory piece of work, and did not therefore seek to offer an overall rating on arrangements, however a draft version of their report shared with senior officers in January 2023 raised some significant concerns over the Council's oversight and governance of the subsidiary. The Council's internal auditor issued the final version of their report at the end of July 2023, in addition within their Annual Head of Internal Audit Report for 2022/23 they noted their review found 'a number of weaknesses', including in relation to:

Value for Money Commentary

- A lack of clarity in respect of roles and responsibilities (including officers and members);
- The composition and training of members of the Board;
- Performance management; and
- Documentation of Board meetings.

As a result of the concerns raised in the draft report the Council's Executive agreed in January 2023 to recommend to the directors of Middlesbrough Development Company that the subsidiary body be wound up. Within the covering report submitted to the Executive to inform this decision, the Council stated:

"As the activities of the company have turned from theoretical to actual, and the practicalities of taking and implementing board decisions have become more complex, a number of weaknesses have been identified in the board arrangements and the relationship with the Council that would need addressing. Veritau, the Council's internal auditors were asked to provide a view on the overall governance situation, and the improvements that would be required to meet the highest standards of good governance. Early conclusions from this work include:

- a. the roles and responsibilities within the company are insufficiently defined for a local authority trading company, with potential conflicts of interest arising through lack of clarity and lack of separation. The role of the shareholder is particularly unclear; and,*
- b. some of the operational aspects of the company do not reflect local authority regulations, or frameworks - such as procurement, risk, performance management and project management.*

The relationship with the company would also require further work from the Council's perspective, as there needs to be a suitable governance structure put in place within the Council structures to review performance, or provide the necessary oversight and accountability for it to function effectively. Specifically issues around Information Governance, Data Protection and other legal requirements are not governed by an appropriate agreement with the Council - which could cause unnecessary risks in the future. Additional work is also required to provide improved transparency around Value for Money and alignment of investments with Council priorities.

It is clear from the review that revising the arrangements to follow the higher standards of governance set out by Local Partnerships, and CIPFA in their recently published Local Authority Owned Companies - A Good Practice Guide, and to minimise any future risk to the Council would require a significant investment of time and money to achieve. The board of the company would need to be reshaped, the staffing structure bolstered, and the arrangements the Council employs to monitor and support it would need to change.

The key gaps identified in issues such as procurement and risk management would require additional staffing to be brought in to manage processes to the standard required by local authorities (and advocated by CIPFA), as would bolstering arrangements around performance management and project management. The current staffing/operation of the company is geared towards commercial expertise and would not therefore have the capacity or experience to adopt the policies and frameworks to align with the Council's approach. Recent examples of issues around Information Governance have highlighted this further, where the company needs to register with the Information Commissioner's Office independently from the Council."

Whilst the Council has taken the decision to recommend winding-up the subsidiary, this has not yet occurred and the subsidiary remains responsible for the regeneration projects previously assigned to it. Up to the point at which the decision was taken to recommend winding-up the subsidiary, the Council had provided £11.9 million in funding to the subsidiary and the estimated lifetime budget of its projects was £13.3 million.

Value for Money Commentary

Management assert that the financial statements of Middlesbrough Development Company are subject to external scrutiny via the subsidiary's external auditor, however we have been unable to corroborate that external audits of the subsidiary's financial statements have taken place. Within the Council's draft Statements of Account for both 2021/22 and 2022/23, the following disclosure is made:

"Under Section 477 of the Companies Act 2006 (in respect of the current annual turnover of the company which is a deficit and the number of employees at 1) MDC is exempt from the requirement of the Act for the audit of its accounts for the financial year. However due to the need to consolidate the accounts into the Council's group arrangements, the company directors have decided to appoint an external auditor and undertake an audit process."

The disclosure within the Council's draft 2021/22 Statement of Accounts included cross-reference to the Middlesbrough Development Company website, which is no longer available, and the draft 2022/23 Statement of Accounts included cross-reference to the Council's own website for copies of the Middlesbrough Development Company financial statements. The financial statements of Middlesbrough Development Company published on the Council's website contain an unsigned audit report for the year ended 31 March 2022 and are explicitly presented as unaudited for the year ended 31 March 2023. The accounts filed by Middlesbrough Development Company with Companies House for the year ended 31 March 2022 were unaudited financial statements, and the financial statements for the year ended 31 March 2023 are shown on the Companies House website as overdue as of June 2024. In our view, the disclosure within the Council's Statement of Accounts is therefore misleading to readers of the Council's financial statements.

In our view, the concerns raised by the Council's internal auditor and the subsequent assessment by the Council that "a significant investment of time and money" would be required to meet the standards of governance set out within the CIPFA good practice guidance are indicative that the Council did not have proper arrangements in place to oversee the activities of its subsidiary and ensure that Middlesbrough Development Company delivered value for money with the resources provided to it by the Council during either 2021/22 or 2022/23. Given the material levels of funding provided by the Council to Middlesbrough Development Company, we consider that this is a significant weakness in the Council's arrangements to secure value for money. We have previously reported our conclusion that the Council did not have proper arrangements in place with regards to its oversight of Middlesbrough Development Company as part of our report 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023, which included the following statutory recommendations we issued to the Council in respect of this significant weakness:

12. 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; and
13. 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.

Value for Money Commentary

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

Business intelligence dashboards are used by both Council leadership and service line management to monitor key performance indicators across the Council's services and track the implementation of previously agreed actions, including progress against the milestones set out in the Council's Strategic Plan.

In January 2020, the Council's provision of childrens social care services was rated inadequate by the Office for Standards in Education, Children's Services and Skills (Ofsted), who noted that 'leaders have not sufficiently focused on the significant areas of weakness to ensure that the needs of children and care leavers are properly met'. In response to the Ofsted findings, the Council implemented a Children's Services Improvement Plan which remained in effect at the commencement of 2021/22. Delivery against this plan was overseen by a Multi-Agency Strategic Board, supported by a Multi-Agency Operational Board, which was described by the Independent Children's Commissioner in July 2021 as "highly effective".

In July 2021, the Independent Children's Commissioner issued a 12 month review on the Council's implementation of the Children's Services Improvement Plan which was very positive on the progress being made by the Council, concluding that:

"Considerable progress has been made and there is evidence of real impact. Most impressively in the face of significant demand and need, the LA has tackled legacy issues which had inflated the volume of cases in higher tiers of provision. Significant reductions in the care population have been achieved through a focus on permanency and supporting families locally and important reductions in children on child protection plans and within social care generally have taken place. The LA knows itself well and has clearly moved beyond having "the necessary building blocks" in place to an organisation impacting on outcomes and progressing impressively on their improvement journey.

On this basis, I would recommend to the Minister that no further direct engagement of an appointed Commissioner is required and continued monitoring and support to improvement is afforded by the Advisor and core DfE team.

The appointment of the Independent Children's Commissioner was formally concluded in November 2021.

Throughout 2021/22 and 2022/23, the Council received regular focused and monitoring visits from Ofsted. The findings reported by these visits consistently recognised that the Council was making progress in addressing the findings of the 2020 Ofsted report, most significantly in the Council's understanding of the challenges it faces, whilst acknowledging that the Council was starting from a "very low base" and a range of improvements were still required. A full reinspection of the Council's provision of childrens social care services in March 2023 resulted in an upgrading of the Council's rating from 'inadequate' to 'requires improvement to be good' across each of the categories assessed.

Whilst we note that the Council's Children's Services were not yet consistently delivering the expected levels of performance, especially during 2021/22, this reflects the status of the service at the start of the 2021/22 financial year. The Council's actions during the year to 31 March 2022, as assessed by the Commissioner for Children's Services in Middlesbrough, demonstrate that the Council had appropriate arrangements in place during 2021/22 to deliver against the Improvement Plan. The subsequent Ofsted inspection results of March 2023 demonstrate that the Council continued to improve the delivery of its Children's Services through 2022/23.

We do not therefore report a significant weakness in the Council's arrangements during the year ended 31 March 2022 in respect of the provision of Children's Services, and did not recognise this as a risk for the year ended 31 March 2023.

Value for Money Commentary

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

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

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

Performance against non-financial metrics, including milestones of the Council's Strategic Plan, are also presented to the Executive and Overview and Scrutiny Board on a quarterly basis.

Value for Money Commentary

Arrangements since 31 March 2023

Our commentary on the Council's arrangements to secure value for money in its use of resources is specific to the periods being audited, the financial years ended 31 March 2022 and 31 March 2023. Our appointment as the external auditor of the Council concludes with the audit for the year ended 31 March 2023.

The following additional information relates to the actions the Council has taken to address the significant weaknesses in arrangements reported in our commentary since the end of the reporting periods. This information is provided for context and based on more limited audit procedures than for the period 1 April 2021 to 31 March 2023, and we do not express a view within this report on the Council's arrangements since 31 March 2023 as we are not the Council's external auditor for periods commencing on or after 1 April 2023.

Culture and Governance

The May 2023 election saw a change in both the Mayoral leadership of the Council and the overall political control of the Council, following on from the significant changes in the senior officer leadership of the Council in February and March 2023 noted earlier in our commentary. In light of these changes, the Council concluded that a review and reset of the Corporate Governance Improvement Plan would be appropriate prior to detailed development of 'phase 3' of the Corporate Governance Improvement Plan. The Council also reported that the Governance Improvement Board, which had overseen progress up to February 2023 (no meetings were held after this date) would be replaced with an Improvement Advisory Panel. The Improvement Advisory Panel includes external advisors and experts, including an independent chair.

A revised plan for 'phase 3' of the Council's Corporate Governance Improvement Plan was approved by full Council on 18 September 2023, alongside a proposed action plan to respond to the statutory recommendations issued as part of our 'Value for Money Update and Issuance of Recommendations Under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014' report issued on 21 August 2023 (referred to by the Council as its 'Section 24 Action Plan'). A proposed updated Constitution, including updated Financial and Contract Procedure Rules, was also submitted to full Council at this time.

In January 2024, the Chief Officer Appointments Committee approved extension of the appointments of both the Council's Interim Chief Executive and Interim Director of Finance to 31 March 2025 in order to provide stability to the Council's leadership as it continues with the implementation of the Corporate Governance Improvement Plan and Section 24 Action Plan.

Also in January 2024, the Best Value Notice issued to the Council by DLUHC, which had been for an initial period of 12 months, was extended for an additional 6 months to July 2024. In the notification of the extension the Department acknowledged that the Council has "*implemented a range of improvement measures to begin to effectively address the identified concerns*", but highlighted that the Department "*has ongoing concerns regarding your authority*" and the extension was "*in response to the need for continuing reassurance on the Council's capacity to transform at sufficient pace*".

As of March 2024, the most recent update on the progress of the Corporate Governance Improvement Plan and Section 24 Action Plan presented to full Council, the Council was reporting that 57% of actions under the Corporate Governance Improvement Plan and 61% of the actions under the Section 24 Action Plan had been delivered. A small number of actions, equating to 6% of actions under the Corporate Governance Improvement Plan and 8% of actions under the Section 24 Action Plan, were reported as off-track however all other open actions were reported as being on-track for delivery by their target completion dates.

We also note that both senior officers and members have reported, both directly to us and in public meetings such as the Council's Audit Committee, a noticeable positive change in culture at the Council since 31 March 2023 and more collaborative working between members and officers.

Value for Money Commentary

Financial Sustainability

The Council has recognised that it commenced the 2023/24 financial year in a challenging financial position and implemented enhanced scrutiny of its financial outturn and forecasts, with additional monthly reporting to its Leadership Management Team (LMT) and additional finance meetings with each directorate head added to the existing quarterly reporting. Officers have also sought to engage more proactively with elected members on the Council's financial challenges, including introducing quarterly member-led budget challenge sessions.

Through this enhanced scrutiny of its financial position, the Council identified as early as P2 (May 2023) that it was not on track to deliver against its budget for the year ended 31 March 2024. As of Q1 (June 2023), the Council was forecasting an overspend against its budget of £11.6 million. This represented over 9% of the Council's annual budget. The Council only attributed £2.6 million of the anticipated overspend to non-achievement of the savings and additional income generation included within its 2023/24 budget, with the majority relating to cost pressures not allowed for within the budget. The most significant of these included a national pay award above the Council's expectations, demand and inflationary pressures within both adult's and children's social care and rising home-to-school transportation costs. These pressures contain a mixture of factors within the Council's control, such as those related to how it delivers its services, and those beyond its control, such as the national pay award.

The Council implemented a range of measures to address the overspend for 2023/24 projected at Q1, including the use of vacancy control panels to constrain new recruitment to essential posts only, additional restrictions on spending issued by the Interim Director of Finance in July 2023 and an in-year uplift to fees and charges effective from December 2023. These measures helped to reduce the forecast overspend to £8.6 million by the end Q2 (September 2023), £5.5 million by the end of Q3 (December 2023) and £3.6 million by the end of the 2023/24 financial year (March 2024).

The continued overspend against the Council's budget has been assessed by the Council's Interim Director of Finance as critical, with the Council unable in their view to set a balanced budget for 2024/25, whilst maintaining adequate reserves, without exceptional financial support. In January 2024, the Council's Executive approved submission of an application to DLUHC for £15 million of exceptional financial support. In March 2024, full Council approved the Council's budget for 2024/25 inclusive of £13.4 million of exceptional financial support offered by DLUHC in the form of additional Council borrowing. Had the Council's request for exceptional financial support not been accepted by DLUHC, the Council would have been forced to issue a Section 114 notice (see page 21).

The financial position of the Council remains precarious. The Council is reliant upon both the sale of assets and the achievement of significant planned savings for its short-term viability, but requires more significant transformation of the way it delivers its services to become viable over the medium-to-long term. This fact is recognised by management, with the exceptional financial support applied for by the Council including up-front funding for transformation as well as addressing immediate day-to-day budgetary challenges. A detailed proposal setting out the proposed direction, aspirations, investment, and funding requirements of the Council's Recover, Reset, Deliver Transformation Programme was approved by full Council in April 2024.

The Council has also commissioned CIPFA to undertake a review of its financial management practices using the CIPFA Financial Management Model to assist it with identifying areas where its financial management practices could be improved. The results of this review have recently been reported to the Council's management and will be presented to the Council's Executive on 24 July 2024.

Value for Money Commentary

Middlesbrough Development Corporation

On 13 March 2024, the Secretary of State for Levelling Up, Housing and Communities approved the transfer of a number of the Council's assets to the newly formed Middlesbrough Development Corporation, which will oversee redevelopment of key sites within the town centre. Middlesbrough Development Corporation is a subsidiary of the Tees Valley Combined Authority, and is completely separate from the Council's own subsidiary Middlesbrough Development Company.

Transfer of the Council's assets to Middlesbrough Development Corporation was not a decision within the control of the Council, though we note that the Council's members voted against endorsing the principles behind the formation of Middlesbrough Development Corporation and the transfer of Council assets in February 2023.

The Crown Pub is included within the assets to be transferred to Middlesbrough Development Corporation, therefore future structural and restoration costs for this property will not now fall on the Council.



03 Other Matters

Other matters

Financial reporting

In support of our identification of risks of significant weaknesses in the Council's arrangements to secure value for money in its use of resources, we have performed the following procedures to ensure that the Council's draft Statement of Accounts for the years ended 31 March 2022 and 31 March 2023 are consistent with underlying accounting records and have been properly prepared and presented in accordance with legislative and reporting framework requirements. These procedures were not designed to ensure that the underlying accounting records were correct or that the draft Statements of Account were free from material error:

- We reconciled the draft Statement of Accounts for the years ended 31 March 2022 and 31 March 2023 to the trial balances for each period obtained from the Council's accounting system;
- We performed casting and internal consistency checks on the draft Statement of Accounts for the years ended 31 March 2022 and 31 March 2023 to ensure that financial statements were arithmetically correct and internally consistent;
- We completed the CIPFA disclosure checklists for the periods ended 31 March 2022 and 31 March 2023 to ensure that all material required disclosures had been included within the draft Statements of Account;

Page 85 We performed an overall analytical review to understand movements in the financial statements between 2020/21 and 2021/22, and between 2021/22 and 2022/23, to identify any unusual or unexpected movements which may indicate either misstatement of the financial statements or significant changes in the Council's underlying activities;

- We reviewed the Council's bank reconciliations as at 31 March 2022 and 31 March 2023 to ensure that accounting records had been appropriately reconciled to the bank statements; and
- We inspected details of the accounts inspection periods notified by the Council and considered whether they met the requirements of The Accounts and Audit Regulations 2015.

We did not identify any additional risks of significant weaknesses in the Council's arrangements through these procedures, however we noted a number of observations we would like to bring to the Audit Committee's attention. These are set out on pages 36 and 37.

Other matters

Presentation of the Statement of Accounts

- In the Draft Statement of Accounts for 2021/22, the actuarial gain on pensions for the year is stated as £107.235 million on the Comprehensive Income and Expenditure Statement and individual actuarial gains and losses on gross pension assets and liabilities agreeing to this amount are disclosed within the detailed reconciliation of movements in gross assets and liabilities of Note 39. The summary table at the start of Note 39 however incorrectly states the actuarial gain for the year as £nil. The total net assets of the Council are also presented as net liabilities within the Narrative Report;
- In the Draft Statement of Accounts for both 2021/22 and 2022/23, the return on pensions assets and the interest on pension liabilities are disclosed as gross income and expenditure, respectively, within Note 10. On the Comprehensive Income and Expenditure Statement the net of these two amounts is however presented as expenditure, leading to material inconsistency between the gross income and expenditure on the primary statements and in the supporting notes. These amounts were presented as gross income and expenditure within the Comprehensive Income and Expenditure Statement of the Council's final Statement of Account for 2020/21;
- In the Draft Statement of Accounts for 2022/23, there are multiple errors in the presentation of the Statements of Cash Flows and supporting notes. These include a difference of £20.985 million between the cashflows from operating activities per the single-entity Statement of Cash Flows and per the supporting note, the Group Statement of Cash Flows cross-referring to the supporting notes to the single-entity Statement of Cash Flows for further details of operating, financing and investing cashflows despite the Group and single-entity cashflows being different (no supporting notes to the Group Statement of Cash Flows are disclosed) and poor alignment of line item descriptions in the single-entity Statement of Cash Flows with potential to confuse readers as to which amounts relate to which line item descriptions; and
- We noted a number of minor casting and internal consistency errors in both sets of draft statements which we would expect to be addressed by a robust quality review process.

As set out within the Statement of Responsibilities included within both the 2021/22 and 2022/23 Draft Statement of Accounts, the Interim Director of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting. As noted above, the Draft Statement of Accounts for both 2021/22 and 2022/23 contain material misstatements or disclosure errors therefore we would encourage management to address these observations prior to finalising the Statement of Accounts for 2021/22 and 2022/23, and to review the quality assurance processes which support the Interim Director of Finance's sign-off of the Statement of Accounts.

Management have asserted that they have continued to work on the financial statements for both the year ended 31 March 2022 and the year ended 31 March 2023 since publication of the draft financial statements, including through development of an integrity checker to address inconsistencies between disclosures, the impact of which will be reflected in the final financial statements for each period when published by the Council.

Other matters

Inspection of the Accounts

The Accounts and Audit Regulations 2015 require local authorities such as Middlesbrough Council to commence the inspection period for its Draft Statement of Accounts no later than 1 June each year. For 2021/22, this date was amended by The Accounts and Audit (Amendment) Regulations 2021 to 1 August 2022. The Council commenced its inspection period for the 2021/22 Statement of Accounts on 30 August 2022 due to a combination of capacity challenges within the Council's Finance Team, including vacancy of the Chief Accountant post, and the external audit of the Council's 2020/21 Statement of Accounts being ongoing due to the impact on other audit work of the cultural and governance issues reported on in our 2020/21 value for money commentary and a sector-wide technical accounting issue in respect of infrastructure assets, and therefore did not comply with the statutory requirement. There is no requirement for the external audit of the previous year's Statement of Accounts to be concluded prior to publication of Draft Statement of Accounts, which are unaudited, for the following year.

The Accounts and Audit Regulations 2015 also require that either within or alongside the Draft Statement of Accounts, a Draft Annual Governance Statement is available during the inspection period. As noted on pages 13 and 14, the finalisation of the Council's Annual Governance Statement for 2020/21 was delayed due to senior officers taking the view that they were unable to sign the Council's Annual Governance Statement for the year ended 31 March 2021 on the grounds that the statement did not fully reflect the size and scale of the cultural change required at the Council. This had a knock-on impact on preparation of the Draft Annual Governance Statement for 2021/22, and the inspection period therefore took place without this being made available contrary to the statutory requirements. The Council published its Draft Annual Governance Statement for 2021/22 in December 2022 as part of the papers for the Corporate Affairs and Audit Committee, but has not made it available on the same part of the Council's website as the Annual Governance Statements for other periods.

The Council commenced its inspection period for the 2022/23 Statement of Accounts on 8 January 2024, significantly behind the statutory deadline, due primarily to an ongoing review of the Council's Collection Fund provisions for impairment across both the 2021/22 and 2022/23 statements (see next page). As for 2021/22, the inspection period took place without publication of the Annual Governance Statement as required by the Accounts and Audit Regulations 2015. After we reported this to management, the Council performed a second inspection period commencing 22 February 2024 following publication of a Draft Annual Governance Statement for 2022/23.

Responsibility for ensuring the Council complies with statutory requirements relating to the inspection of the accounts rests with management.

Other matters

Collection Fund provisions for impairment

The Council's financial statements include the Collection Fund Accounts, which set out details of the Council Tax and Non-Domestic Rates balances for which the Council is the billing authority. Included within the Collection Fund Accounts are provisions for impairment of outstanding balances owed to the Council, as billing authority, in relation to Council Tax and Non-Domestic Rates. Within the Council's Draft Statement of Accounts for 2021/22, these balances totalled £25.005 million for Council Tax and £8.987 million for Non-Domestic Rates. These amounts relate to the total amounts collected by the Council, including those amounts collected on behalf of central government, the Cleveland Police and Crime Commissioner and the Cleveland Fire Authority, however the Council also recognises its share of these provisions within its own financial statements.

In our Audit Results Reports for the 2020/21 audit issued in July 2022 and April 2023, we included a control observation that assumptions underpinning the Council's provisions for impairment of irrecoverable debt had not changed for a number of years and, where adjustments had been made, there was a limited evidence base for the size of those adjustments giving rise to a risk that they are no longer appropriate and the Council was not accurately calculating its exposure to irrecoverable balances. We recommended that management review the assumptions used to ensure they remained appropriate. Management's response to our recommendation had the greatest impact on the provisions relating to Collection Fund balances, as the largest impairment provisions recognised by the Council.

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In August 2023, management informed us that they had completed a review of the Collection Fund impairment calculations in response to our recommendation and had identified a potential adjustment to the draft 2021/22 financial statements which would have a material downward impact upon the valuation of provisions for impairment. Management also advised us that the impact from this release of provisions would be carried into the Council's 2024/25 budget setting exercise, in-line with normal practice for Collection Fund balances and as the Council's budget for 2023/24 had already been set, with the intention of being held within usable reserves. Given the financial challenges highlighted earlier in this report, this was an important factor in the Council's ability to set a balance budget for 2024/25 whilst beginning to rebuild the Council's low level of reserves. It was agreed that given the significance to the Council's overall financial position audit review of these revised impairment calculations would be prioritised.

Following audit challenge of the methodology adopted in the determination of the revised provisions, management developed a different methodology for determining the Collection Fund impairment provisions which increased the size of the release from provisions. We have worked with management to review the overall methodology adopted, the key judgements and assumptions and the data used (though we have not sought to test the accuracy of input data as the focus has been on methodology).

The Draft Statement of Accounts for 2022/23 published by the Council on 28 December 2023 included opening balances as at 1 April 2022 and closing balances as at 31 March 2023 for the Collection Fund impairment provisions calculated in accordance with management's revised methodology. The total Collection Fund bad debt provisions as at 31 March 2022 reflected in the Draft Statement of Accounts for 2022/23 was £16.484 million for Council Tax and £5.725 million for Non-Domestic Rates. These amounts represent reductions of £8.521 million (34%) for Council Tax and £3.262 million (36%) for Non-Domestic Rates compared to the amounts included within the Council's Draft Statement of Accounts for 2021/22.

Management has continued to refine their modelling of the provisions for impairment as at both 31 March 2022 and 31 March 2023 since publication of the Draft Statement of Accounts for 2022/23 to ensure they most appropriately reflect the levels of anticipated irrecoverability within Collection Fund balances. Our assessment is that the revised overall methodology developed by management should be capable of determining appropriate impairment provisions for the Collection Fund, however discussions with management are ongoing in relation to a small number of assumptions and judgements in the application of that methodology and require conclusion before we are able to conclude on whether the revised level of impairment provisions are within an acceptable range.

Other matters

Objection

The Local Audit and Accountability Act 2014 allows for an elector to raise an objection to the Council's Statement of Accounts to the external auditor, during the accounts inspection period. where the objection concerns a matter in respect of which the external auditor could issue a Public Interest Report or seek a declaration that an item of account is unlawful.

We received one objection in relation to the Council's Statement of Accounts for 2022/23, concerning the Council's joint application to the Levelling-Up Fund with Redcar and Cleveland Borough Council for funding to improve accessibility in South Middlesbrough and whether the application for funding had been approved within the Council in accordance with the Council's Financial Procedure Rules. The objection was raised to us as a request to seek a declaration that the associated items of account were unlawful.

It was announced on 18 January 2023 that the Council's application for funding had been successful, however management have confirmed to us that no monies were received by the Council and no expenditure to be funded by the application incurred prior to 31 March 2023. Consequently, there are no items of account appearing within the accounts for the year ended 31 March 2023 upon which an application to the courts for a declaration that such items are contrary to law could be made. On this basis, we decided not to accept the objection.

We have not sought to establish the facts in relation to the application to the Levelling-Up Fund in question and whether the application was approved in accordance with the Council's Financial Procedure Rules in this specific instance, but highlight our conclusion within our value for commentary that non-adherence to the Council's Financial and Contract Procedure Rules was pervasive within the Council during both 2021/22 and 2022/23.

We did not receive any objections in relation to the Council's Statement of Accounts for 2021/22.

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ED None

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| MIDDLESBROUGH COUNCIL |  |
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| Report of: | Director of Finance (S151 Officer) |
| Relevant Executive Member: | Executive Member for Finance and Governance |
| Submitted to: | Audit Committee |
| Date: | 25 July 2024 |
| Title: | Middlesbrough Council – Audit Strategy Memorandum 2023/24 |
| Report for: | Information |
| Status: | Public |
| Council Plan priority: | Delivering Best Value |
| Key decision: | No |
| Why: | Report is for information only |
| Subject to call in?: | No |
| Why: | Not Applicable |

Executive summary

The External Auditor, Mazars, has concluded their planning work in relation to the financial year 2023/24 and will present the Annual Report to the Committee for information and discussion.

The report comprises the Auditor's proposed approach and key issues in relation to the audit of the financial statements and on the assessment of the Council's arrangements for securing robust governance and Value for Money for the last financial year.

This is the first year of the new external audit contract with Mazar's, covering the period 2023/24 to 2027/28. Members will be aware that the audit of the two previous year's accounts for the Council with Ernst & Young are still open and that we are expecting these to be modified and/or disclaimed opinions, depending on government legislation that is still to be confirmed.

1. Purpose

1.1 The purpose of the report is for Mazars, the Council's External Auditor, to present their Audit Strategy Memorandum for the 2023/24 financial year. This sets out their plans for the audit of the financial statements and value for money arrangements for the Council.

2. Background and relevant information

2.1 Mazar's Audit Strategy Memorandum for 2023/24 is attached at Appendix 1 and includes the following sections:

- Engagement and responsibilities summary
- The audit engagement team
- Audit scope, approach, and timeline
- Significant risks and other key judgement areas
- Value for money arrangements
- Fee for the audit and other services
- Commitment to independence
- Materiality and other misstatements

2.2 The external auditor will present their report and overall approach to the Committee.

3. What decision(s) are being recommended

3.1 That the Committee:

- Note the contents of the Audit Strategy Memorandum for the 2023/24 audit.
- Discuss any appropriate matters with the external auditors and officers which may have a bearing on the parameters for the audit being undertaken.

4. Rationale for the recommended decision(s)

4.1 The Committee is required to receive and consider the external auditor's report as part of its governance role and responsibility in relation to audit activities.

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

5.1 *Financial (including procurement and Social Value)*

The Council decided on 23 February 2022 to 'opt in' to the national audit appointment scheme undertaken by Public Sector Audit Appointments (PSAA), a government agency for contracting external audit services. This decision covered contracts being let for the period from 1 April 2023 to 31 March 2028 (five financial years) and would cover both the financial statements audit and the assessment on the value for money arrangements in place.

The Council was notified by PSAA in December 2022 that Mazars would be the new external auditor for this period. This was in line with the requirement under the local audit and accountability act 2014 of having an external auditor in place prior to the 31 December, before the start of each new financial year. The Mazars contract replaces

the current arrangement with Ernst & Young who have been the Council's auditor since the start of the 2017/18 financial year.

The base audit fee for any local authority who opts into the national scheme is set by PSAA, based on size and on previous audit experience and fees paid. The audit fee for the Council for the 2023/24 audit is outlined in Section 6 of the audit strategy memorandum at £321,074. This fee may increase based on any additional work required by the auditor as part of their statutory role.

The fee for 2023/24 is a significant increase over the base audit fee for 2022/23 of £111,857 but represents the additional external audit work undertaken in relation to the Council over the last couple of completed audits. The 2023/24 fee is fully budgeted for within the corporate part of the Council's accounts.

5.2 Legal

There are no legal implications arising from this report.

5.3 Risk

The report sets out how the external auditor will assess whether:

- the financial statements prepared by the Council, show a true and fair view.
- the governance and value for money arrangements in place within the Council are adequate when managing public money.

Both assessments contain an element of reputational risk in how the Council has managed the various processes.

5.4 Human Rights, Public Sector Equality Duty and Community Cohesion

There are no specific impacts or implications.

5.5 Climate Change / Environmental

There are no specific impacts or implications.

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

There are no specific impacts or implications.

5.7 Data Protection

There are no specific impacts or implications.

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

| Action | Responsible Officer | Deadline |
|----------------|---------------------|----------|
| Not applicable | | |

Appendices

| | |
|---|---|
| 1 | Middlesbrough Council – Audit Strategy Memorandum 2023/24 |
|---|---|

Background papers

| Body | Report title | Date |
|---------|--|------------------|
| Council | Appointment of External Auditors 2023/24 – 2027/28 | 23 February 2022 |

Contact: Justin Weston, Head of Finance and Investment
Email: justin_weston@middlesbrough.gov.uk

Draft Audit Strategy Memorandum

Middlesbrough Council

Year ended 31 March 2024

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- 02 Your audit engagement team
- 03 Audit scope, approach and timeline
- 04 Significant risks and other key judgement areas
- 05 Value for money arrangements
- 06 Fees for audit and other services
- 07 Our commitment to independence
- 08 Materiality and misstatements

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Appendix A – Key communication points

Appendix B - Current year updates, forthcoming accounting and other issues

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

This document is to be regarded as confidential to Middlesbrough Council. It has been prepared for the sole use of Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Middlesbrough Council
PO Box 500
Middlesbrough
TS1 9FT

May 2024

Dear Audit Committee Members

Draft Audit Strategy Memorandum – Year ending 31 March 2024

We are pleased to present our draft Audit Strategy Memorandum for Middlesbrough Council for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and

- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 0113 294 2000.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Mark Kirkham

Mazars LLP

Mazars LLP – 5th Floor, 3 Wellington Place, Leeds LS1 4AP

Tel: – 0191 383 6300 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London EC4M 7AU.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Middlesbrough Council (the Council) for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Council's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Committee in due course.

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| Engagement area | Responsibilities |
|---|---|
|  Audit opinion | <p>We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit Committee, as Those Charged With Governance, of their responsibilities.</p> <p>The Director of Finance is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:</p> <ul style="list-style-type: none">a) whether a material uncertainty related to going concern exists; andb) consider the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements. |

1. Engagement and responsibilities summary

Overview of engagement (continued)

| Engagement area | Responsibilities |
|--|---|
|  Internal control | <p>Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Middlesbrough Council's internal control.</p> |
|  Fraud | <p>The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.</p> <p>As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management, internal audit and other key individuals where relevant as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.</p> |
|  Wider reporting and electors' rights | <p>We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.</p> <p>The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Council and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.</p> |
|  Value for money | <p>We are also responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to value for money arrangements work in section 5 of this report.</p> |

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02

Section 02:

Your audit engagement team

2. Your audit engagement team

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Mark Kirkham
Partner
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0113 294 2000

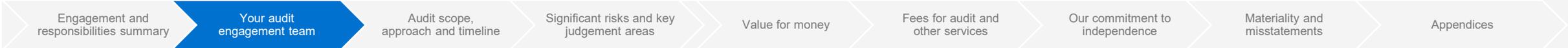


Cath Andrew
Senior Manager
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David Hurworth
Assistant Manager
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0191 383 6300

In addition, an engagement quality reviewer has been appointed for this engagement.



03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Risk-based Approach



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3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

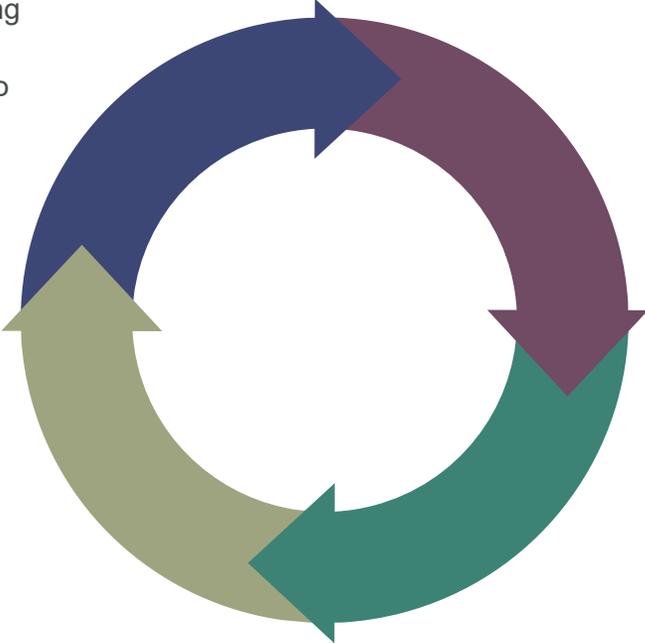
Planning and Risk Assessment April to June 2024

- Planning visit and developing our understanding of the Council
- Initial opinion and value for money risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

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Completion to be confirmed

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the independent auditor's report



Interim July to August 2024

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls and application controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork subject to approval of draft financial statements

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Management’s and our experts

Management makes use of experts in specific areas when preparing the Council’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Item of account | Management’s expert | Our expert |
|---|---|--|
| Defined benefit liability and asset | Actuary (Hymans Robertson) | NAO’s consulting actuary (PWC) |
| Property, plant and equipment valuation | External valuer (Align Property Services) | In-house Mazars valuation team, where needed |
| Financial instrument disclosures | Arlingclose | Not applicable |

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Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

We have not identified any service organisations which impact on the production on the financial statements which have an impact on our audit.

3. Audit scope, approach and timeline

Group audit approach

We are responsible for the audit of the group financial statements, which consolidate the Council's single entity accounts with the component of Middlesbrough Development Company. In 2023/24, the component transactions are expected to be around 1% of the group based on operating expenditure and consequently, the company is not a significant component.

Our group audit approach for 2023/24 will include:

- analytical procedures at group audit level supplemented by tests of detail if appropriate;
- undertaking reasonableness checks on the information to be included in the statements in relation to the entity. We will also assess the controls that management have put in place over the information to be included in the group accounts and assess the potential impact on our audit work;
- updating our understanding of how the Council prepares its group statements and manages the consolidation process; and
- the audit of the group financial statements, ensuring appropriate consolidation adjustments and disclosures of the information provided by the other entity.

04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

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

Enhanced risk

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

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

Standard risk

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

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to Audit Committee.

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|--|
| 1 | <p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement due to fraud on all audits.</p> | ● | ○ | ○ | We plan to address the management override of controls risk by carrying out audit work on: accounting estimates; journal entries; and significant transactions outside the normal course of business or otherwise unusual. |

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4. Significant risks and other key judgement areas

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---------|---|-------|-------|-----------|--|
| 2 | <p>Risk of fraud in revenue recognition There is a presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements.</p> | ● | ○ | ○ | <p>We plan to address this risk by carrying out a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing significant grants and capital receipts recorded around year end to ensure they have been recognised in the appropriate year; • testing year end receivables; and • obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger. |
| Page 12 | <p>Valuation of net defined benefit liability The 2023/24 financial statements are expected to contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> | ○ | ● | ● | <p>We will:</p> <ul style="list-style-type: none"> • critically evaluate the Council's arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and • challenge the reasonableness of the Actuary's assumptions that underpin entries made in the financial statements, using an expert commissioned by the National Audit Office; • critically assess the competency, objectivity and independence of the Actuary; • liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; • compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and • agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements. |

4. Significant risks and other key judgement areas

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|---|
| 4 | <p>Valuation of land, buildings and surplus assets</p> <p>The 2023/24 financial statements are expected to contain material entries on the balance sheet as well as material disclosure notes in relation to the Council’s holding of property, plant and equipment (PPE).</p> <p>Although the Council employs valuation experts to provide information on valuations, there remains a high degree of estimation uncertainty associated with the (re)valuations of property, plant and equipment due to the significant judgements and number of variables involved.</p> | ○ | ● | ● | <p>We will:</p> <ul style="list-style-type: none"> critically assess the Council’s arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated; critically assess the basis of valuations, using third party trend data where appropriate, as part of our challenge of the reasonableness of the valuations provided by valuers; consider the competence, skills and experience of the valuers and the instructions issued to the valuers; substantively test revaluations, including critically reviewing the Council’s own consideration of assets not revalued in the year and why they are not materially misstated; and where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate. |

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4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

| | Description | Fraud | Error | Judgement | Planned response |
|----------|---|-------|-------|-----------|--|
| Page 114 | <p>Debtors' impairment allowance</p> <p>At 31 March 2023, the Council disclosed an impairment of debtors' allowance totalling £27.8m as an area of estimation uncertainty.</p> | ○ | ● | ● | <p>We will:</p> <ul style="list-style-type: none"> critically review the Council's calculation of its impairment of debtors' allowance; and assess whether disclosures are in line with the Code of Audit Practice, including any exemptions relevant to non-contractual debt. |

4. Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether Audit Committee has knowledge of, the following matters:

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

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

Significant difficulties encountered during the course of audit

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

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

We will highlight to you on a timely basis should we encounter any such difficulties (if our

audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Based on our assessment of the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control, we do not expect to use the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit determine whether any findings will have an impact on our risk assessment and planned audit procedures.

05

Section 05:

Value for money arrangements

Page 116

5. Value for money arrangements

The framework for value for money work

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

2023/24 will be the fourth audit year in which value for money (VFM) arrangements work is done under the 2020 Code of Audit Practice (the Code). Our responsibility is to be satisfied that the Council has proper arrangements in place and to report in the auditor's report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Council's arrangements in the Auditor's Annual Report.

Specified reporting criteria

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

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

Our approach

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

Planning

Obtaining an understanding of the Council's arrangements for each specified reporting criteria. Relevant information sources will include:

- NAO guidance and supporting information;
- information from internal and external sources including regulators;
- knowledge from previous audits and other audit work undertaken in the year; and
- interviews and discussions.

Additional risk based procedures and evaluation

Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.

Reporting

We will provide a summary of the work we have undertaken and our judgements in each of the specified reporting criteria as part of our commentary on arrangements which forms part of the Auditor's Annual Report.

Our commentary will also highlight:

- significant weaknesses identified and our recommendations for improvement; and
- emerging issues or other matters that do not represent significant weaknesses but still require attention from the Council

5. Value for money arrangements

Identified risks of significant weaknesses in arrangements

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

Although we have not fully completed our planning and risk assessment work, the table below outlines the risks of significant weaknesses in arrangements that we have identified to date. We will report any further identified risks to the Audit Committee on completion of our planning and risk identification work.

| Page 118 | Risk of significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Planned procedures |
|----------|---|---|------------|-------------------|---|
| | <p>Financial sustainability</p> <p>As part of the 2024/25 budget setting and medium-term financial plan update the Council made a request for and received exceptional financial support from the Government as the Council could not meet its spending commitments from its income.</p> <p>We note that the Council has taken recent reports to the Executive relating to the reserves policy and a plan for financial recovery over the period to 2026/27. The Council has also launched a transformation programme in April 2024 to deliver financial recovery. There is a risk that the actions taken will not be sufficient to address the issues raised.</p> | <ul style="list-style-type: none"> ● | | | <p>We intend to review:</p> <ul style="list-style-type: none"> • Budget setting reports, including the application for exceptional financial support. • Budget monitoring reports. • Outturn reports. • Updated medium term financial plans. • Transformation programme. • Links between MTFP and other plans, e.g., people strategy. |

5. Value for money arrangements

Identified risks of significant weaknesses in arrangements (continued)

| | Risk of significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Planned procedures |
|---|--|--------------------------|------------|-------------------|--|
| 2 | <p>Governance</p> <p>External audit reported significant weakness in the Council’s arrangements arising from strained relationships between the Council’s senior officers and elected Members, and between elected Members, and the impact of those on the effectiveness of the Council’s governance processes.</p> <p>We are aware the Council is implementing a corporate governance improvement plan to develop the arrangements in place. There is a risk that the actions taken will not be sufficient to address the issues raised.</p> | | ● | | <p>We intend to review:</p> <ul style="list-style-type: none"> • Internal audit plan and reporting. • Annual governance statement. • Section 24 recommendations action plan. • Corporate governance improvement plan. • Response to unplanned changes and informed decision making. • Risk management arrangements. • Standards monitoring. |

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5. Value for money arrangements

Identified risks of significant weaknesses in arrangements (continued)

| | Risk of significant weakness in arrangements | Financial sustainability | Governance | Improving the 3Es | Planned procedures |
|---------------|---|--------------------------|------------|-------------------|---|
| 3 Page 120 | <p>Improving economy, efficiency and effectiveness</p> <p>A number of external audit recommendations raised issues about how the Council evaluates the services it provides to assess performance and identify areas for improvement and the arrangements in place for commissioning and procuring services.</p> <p>The Council's action plans and development workstreams include a range of measures to address deficiencies. We also note the oversight provided by the Independent Improvement Advisory Board. There is a risk that the actions taken will not be sufficient to address the issues raised.</p> | | | ● | <p>We intend to review:</p> <ul style="list-style-type: none"> • Updated Council plan and performance monitoring. • Transformation programme. • Partnership working. • Procurement arrangements and response to section 24 recommendations. • Relevant internal audit reports. |

06

Section 06:

Fees for audit and other services

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6. Fees for audit and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of Middlesbrough Council for the year ended 31 March 2024, are outlined below.

Fees for work as the Council’s appointed auditor

At this stage of the audit, we are not planning any divergence from the scale fees set by PSAA.

| Area of work | 2023/24 Proposed Fee | 2022/23 Scale Fee |
|-----------------|----------------------|-------------------|
| Core Audit Work | £321,074 | £111,857 |

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Fees for non-PSAA work

We have not been separately engaged by the Council to carry out additional work. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

07

Section 07:

Our commitment to independence

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7. Our commitment to independence



Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.



Compliance

We are not aware of any relationship between Mazars and Middlesbrough Council that, in our professional judgement, may reasonably be thought to impair our independence.
We are independent of Middlesbrough Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.



Non-audit and Audit fees

We have set out a summary any non-audit services provided by Mazars (with related fees) to Middlesbrough Council in Section 6, together with our audit fees and independence assessment.

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7. Our commitment to independence

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration.
- all new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- rotation policies covering audit engagement partners and other key members of the audit team.
- use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. If at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services, Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and misstatements

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8. Materiality and misstatements

Definitions

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

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

Materiality

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

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

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

- have a reasonable knowledge of business, economic activities, and accounts;

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

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

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

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

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

8. Materiality and misstatements

Materiality (continued)

We consider that gross revenue expenditure at the surplus or deficit on provision of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross revenue expenditure at the surplus or deficit on provision of services level.

As set out in the table alongside, based on the 2022/23 published financial statements we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £9.595m, and performance materiality to be in the region of £4.798m.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

| | 2023/24 £'000s |
|-------------------------|-------------------|
| Overall materiality | £9,596 |
| Performance materiality | £4,798 |
| Clearly trivial | £288 |

8. Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to Audit Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £288,0000, based on 3% of overall materiality. If you have any queries about this, please raise these with Mark Kirkham.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to Audit Committee as follows:

- adjusted misstatements;
- unadjusted misstatements; and
- disclosure misstatements (adjusted and unadjusted).



Appendices

A: Key communication points

B: Current year updates, forthcoming accounting & other issues

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

Pages 30

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

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

Form, timing and content of our communications

We will present the following reports:

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

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

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

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.

- Our commitment to independence.
- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

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

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

Appendix A: Key communication points

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

| Required communication | Where addressed |
|--|--|
| Our responsibilities in relation to the financial statement audit and those of management and those charged with governance. | Audit Strategy Memorandum |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks. | Audit Strategy Memorandum |
| With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. | Audit Completion Report |
| With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of Audit Committee to determine whether they have a 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 fraud may exist; and • a discussion of any other matters related to fraud. | Audit Completion Report and discussion at Audit Committee, Audit Planning and Clearance meetings |

Appendix A: Key communication points

| Required communication | Where addressed |
|--|--------------------------------|
| <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. | <p>Audit Completion Report</p> |
| <p>Significant findings from the audit including:</p> <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 or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Council or Audit Committee in the context of fulfilling their responsibilities. | <p>Audit Completion Report</p> |
| <p>Significant deficiencies in internal controls identified during the audit.</p> | <p>Audit Completion Report</p> |
| <p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p> | <p>Audit Completion Report</p> |

Appendix A: Key communication points

| Required communication | Where addressed |
|--|---|
| <p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit Committee may be aware of.</p> | <p>Audit Completion Report and Audit Committee meetings</p> |
| <p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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; and • the adequacy of related disclosures in the financial statements. | <p>Audit Completion Report</p> |
| <p>Reporting on the valuation methods applied to the various items in the annual consolidated financial statements including any impact of changes of such methods</p> | <p>Audit Completion Report</p> |
| <p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm’s ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm’s System of Quality Management. These are:</p> <ul style="list-style-type: none"> • ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership. establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm’s strategies and priorities; • identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.); • identify, design and implement responses as part of the process to strengthen the firm’s internal control environment and overall quality; and • evaluate responses to identify and remediation process / control gaps. <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website.</p> | <p>Audit strategy memorandum</p> |

Appendix A: Key communication points

| Required communication | Where addressed |
|--|---|
| Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework. | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms | Audit Strategy Memorandum and/or Audit Completion Report as appropriate |
| Indication of whether all requested explanations and documents were provided by the entity | Audit Completion Report |

Appendix B: Current year updates, forthcoming accounting & other issues Applicable for IFRS Reporters

Current and forthcoming accounting issue

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies* (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 *Financial Instruments (Issued December 2021)**

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 *Insurance Contracts* has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

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

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

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

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Council's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This consultation proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This consultation proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Council, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been

met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited statements of account; and
- Setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This consultation has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principal changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

Mark Kirkham, Partner

Mazars

5th Floor
3 Wellington Place
Leeds
LS2 4AP

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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MIDDLESBROUGH COUNCIL

| | |
|-----------------------------------|---|
| Report of: | Director of Finance (S151 Officer) |
| Relevant Executive Member: | Executive Member for Finance and Governance |
| Submitted to: | Audit Committee |
| Date: | 25 July 2024 |
| Title: | Teesside Pension Fund – Audit Strategy Memorandum 2023/24 |
| Report for: | Information |
| Status: | Public |
| Council Plan priority: | Delivering Best Value |
| Key decision: | No |
| Why: | Report is for information only |
| Subject to call in? | No |
| Why: | Not Applicable |

Executive summary

The External Auditor, Mazars, has concluded their planning work in relation to the financial year 2023/24 and will present the Annual Report to the Committee for information and discussion.

The report comprises the Auditor's proposed approach and key issues in relation to the audit of the accounts for the Teesside Pension Fund.

This is the first year of the new external audit contract with Mazar's, covering the period 2023/24 to 2027/28. Members will be aware that the audit of the two previous year's accounts for the Council and Pension Fund with Ernst & Young are still open and that we are expecting these to be modified and/or disclaimed opinions, depending on government legislation that is still to be confirmed.

1. Purpose

1.1 The purpose of the report is for Mazars, the Council's External Auditor, to present their Audit Strategy Memorandum for the 2023/24 financial year. This sets out their plans for the audit of the financial statements for the Teesside Pension Fund.

2. Background and relevant information

2.1 Mazar's Audit Strategy Memorandum for 2023/24 is attached at Appendix 1 and includes the following sections:

- Engagement and responsibilities summary
- The audit engagement team
- Audit scope, approach, and timeline
- Significant risks and other key judgement areas
- Value for money arrangements
- Fee for the audit and other services
- Commitment to independence
- Materiality and other misstatements

2.2 The external auditor will present their report and overall approach to the Committee. The Teesside Pension Fund is accounted for separately from the Council's financial statements, albeit both are incorporated in the overall Council's Statement of Accounts.

3. What decision(s) are being recommended

3.1 That the Committee:

- Note the contents of the Audit Strategy Memorandum for the 2023/24 audit.
- Discuss any appropriate matters with the external auditors and officers which may have a bearing on the parameters for the audit being undertaken.

4. Rationale for the recommended decision(s)

4.1 The Committee is required to receive and consider the external auditor's report as part of its governance role and responsibility in relation to audit activities.

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

5.1 *Financial (including procurement and Social Value)*

The Council decided on 23 February 2022 to 'opt in' to the national audit appointment scheme undertaken by Public Sector Audit Appointments (PSAA), a government agency for contracting external audit services. This decision covered contracts being let for the period from 1 April 2023 to 31 March 2028 (five financial years) and would cover both the financial statements audit and the assessment on the value for money arrangements in place. The Council decision also covered the accounts for the Teesside Pension Fund.

The Council was notified by PSAA in December 2022 that Mazars would be the new external auditor for this period. This was in line with the requirement under the local

audit and accountability act 2014 of having an external auditor in place prior to the 31 December, before the start of each new financial year. The Mazars contract replaces the current arrangement with Ernst & Young who have been the Council's auditor since the start of the 2017/18 financial year.

The base audit fee for any body who opts into the national scheme is set by PSAA, based on size and on previous audit experience and fees paid. The audit fee for the Council for the 2023/24 audit is outlined in Section 5 of the audit strategy memorandum at £120,380. This fee may increase based on any additional work required by the auditor as part of their statutory role.

The fee for 2023/24 is a significant increase over the base audit fee for 2022/23 of £37,054 but represents the additional external audit work undertaken in relation to the Council over the last couple of completed audits. The 2023/24 fee is fully budgeted for against the Teesside pension fund accounts.

5.2 Legal

There are no legal implications arising from this report.

5.3 Risk

The report sets out how the external auditor will assess whether:

- the financial statements prepared by the Council, show a true and fair view.

The contain an element of reputational risk in how the Council has managed the various processes.

5.4 Human Rights, Public Sector Equality Duty and Community Cohesion

There are no specific impacts or implications.

5.5 Climate Change / Environmental

There are no specific impacts or implications.

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

There are no specific impacts or implications.

5.7 Data Protection

There are no specific impacts or implications.

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

| Action | Responsible Officer | Deadline |
|----------------|---------------------|----------|
| Not applicable | | |

Appendices

| | |
|---|---|
| 1 | Teesside Pension Fund – Audit Strategy Memorandum 2023/24 |
|---|---|

Background papers

| Body | Report title | Date |
|---------|--|------------------|
| Council | Appointment of External Auditors 2023/24 – 2027/28 | 23 February 2022 |

Contact: Justin Weston, Head of Finance and Investment
Email: justin_weston@middlesbrough.gov.uk

Draft Audit Strategy Memorandum

Teesside Pension Fund

Year ending 31 March 2024

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This document is to be regarded as confidential to Teesside Pension Fund. It has been prepared for the sole use of the Audit Committee as the appropriate Committee Charged With Governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee
Middlesbrough Council
PO Box 500
Middlesbrough
TS1 9FT

24 May 2024

Dear Audit Committee Members

Draft Audit Strategy Memorandum – Year ending 31 March 2024

We are pleased to present our draft Audit Strategy Memorandum for Teesside Pension Fund for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Teesside Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 0113 294 2000.

Yours faithfully

Mark Kirkham

Mazars LLP

Mazars LLP – 5th Floor, 3 Wellington Place, Leeds, LS1 4AP

Tel: 0191 383 6300 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at 30 Old Bailey, London EC4M 7AU.

We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861. VAT number: 839 8356 73

01

Section 01:

Engagement and responsibilities summary

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1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Teesside Pension Fund (the Pension Fund) for the year to 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Pension Fund's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Committee in due course.

| Engagement area | Responsibilities |
|---|--|
|  Audit opinion | <p>We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or Audit Committee, as Those Charged With Governance, of their responsibilities.</p> <p>The Director of Finance is responsible for the assessment of whether it is appropriate for the Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:</p> <ul style="list-style-type: none">a) whether a material uncertainty related to going concern exists; andb) consider the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements. |

1. Engagement and responsibilities summary

Overview engagement responsibilities

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee as Those Charged With Governance, of their responsibilities.

The Director of Finance is responsible for the assessment of whether it is appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists; and
- b) consider the appropriateness of the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements.

Internal control

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

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

Fraud

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

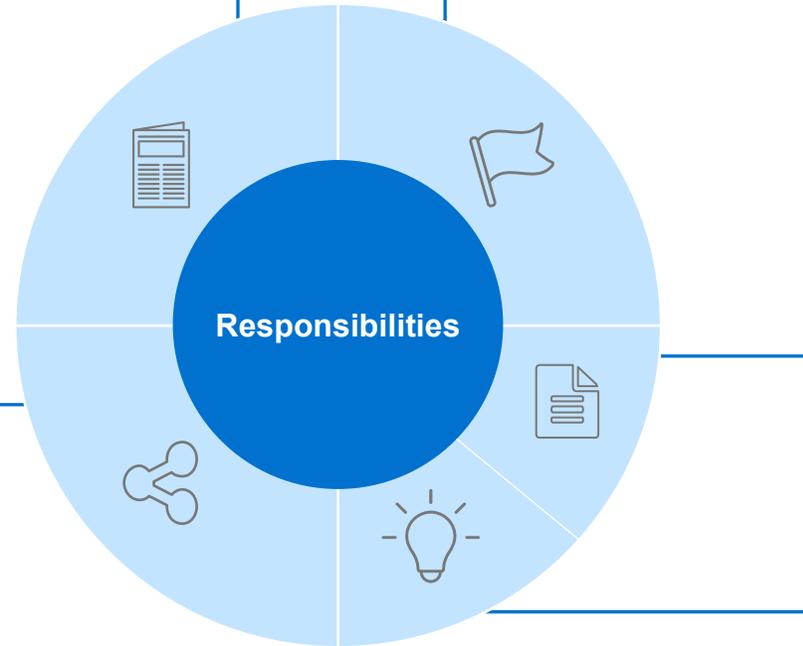
As part of our audit procedures in relation to fraud we are required to enquire of Those Charged With Governance, including key management include Internal audit, other key individuals where relevant as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Consistency Statement

We are responsible for forming and expressing an opinion on the consistency of the financial statements within the Pension Fund's annual report and the Pension Fund's financial statements included in the Statement of Accounts of Middlesbrough Council.



02

Section 02:

Your audit engagement team

2. Your audit engagement team

Below is your audit engagement team and their contact details.



Mark Kirkham
Engagement Lead
mark.kirkham@mazars.co.uk
0113 294 2000



Thomas Backhouse
Engagement Manager
thomas.backhouse@mazars.co.uk
07890 949 525

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03

Section 03:

Audit scope, approach and timeline

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3. Audit scope, approach and timeline

Risk-based Approach



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3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

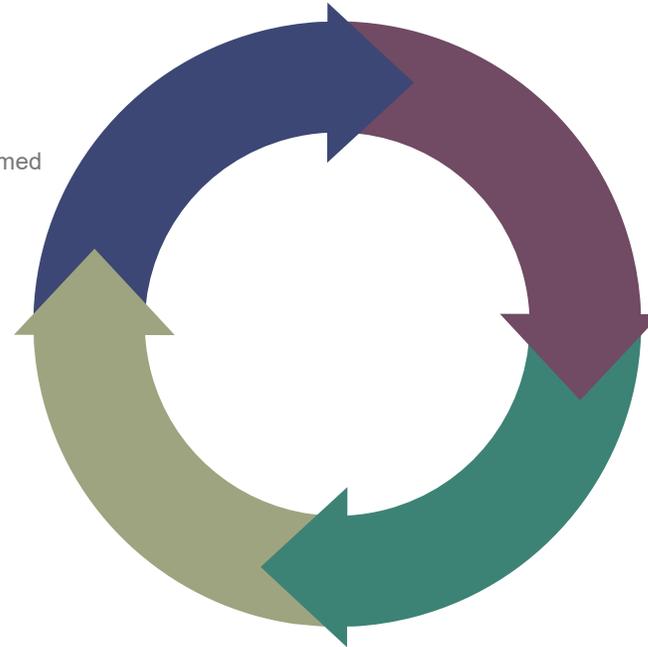
3. Audit scope, approach and timeline

Planning and Risk Assessment April 2024

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion risk assessment
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Completion January 2025

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the independent auditor's report



Interim April to July 2024

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Fieldwork October 2024 to January 2025

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Management’s and our experts

Management makes use of experts in specific areas when preparing the Pension Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

| Item of account | Management’s expert | Our expert |
|--|---------------------|------------------------------|
| Disclosure Notes on funding arrangements and actuarial present value of promised retirement benefits | Hymans Robertson | NAO consulting actuary, PwC. |

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Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and our planned audit approach.

| Items of account | Service organisation | Audit approach |
|---|-----------------------------------|---|
| Investment Valuations and related disclosures | Investment Managers | Substantive testing of in year transactions and valuation applied to investments at the year end. |
| Investment Valuations and related disclosures | Northern Trust (Fund’s Custodian) | Substantive testing of in year transactions and valuation applied to investments at the year end. |

04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

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

Enhanced risk

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

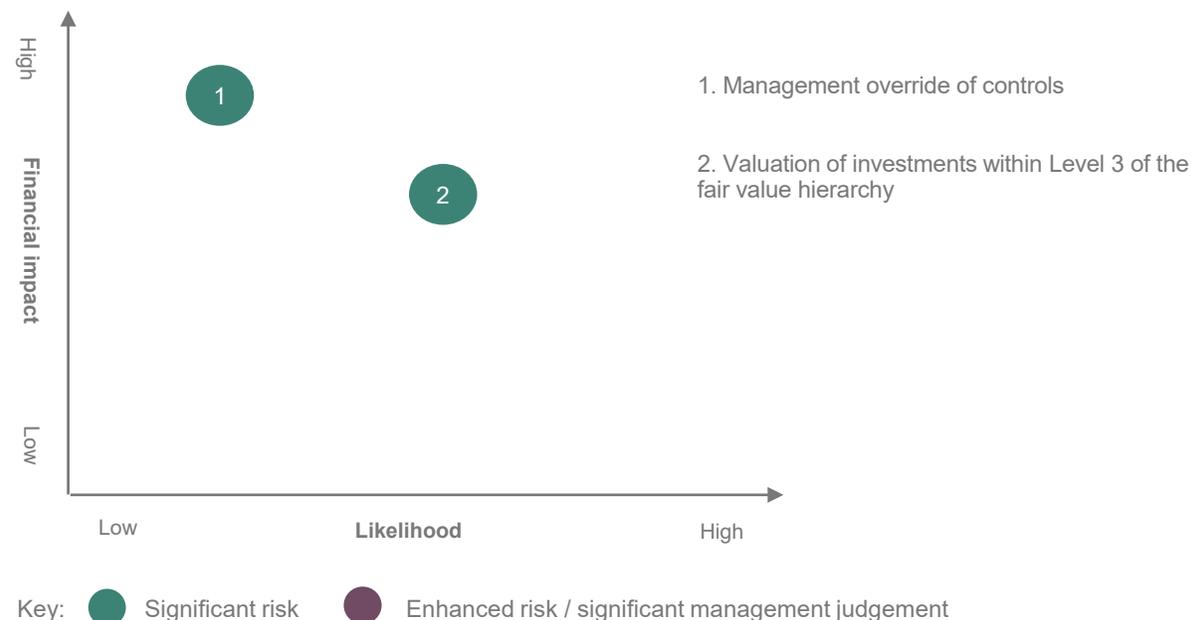
- key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- risks relating to other assertions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

Standard risk

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

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Pension Fund. We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|---------------|---|-------|-------|-----------|--|
| 1 Page 160 | <p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The unpredictable way in which such override could occur means there is a risk of material misstatement due to fraud on all audits.</p> | ● | ○ | ○ | We plan to address the management override of controls risk by carrying out audit work on: accounting estimates; journal entries; and significant transactions outside the normal course of business or otherwise unusual. |

4. Significant risks and other key judgement areas

Significant risks

| | Description | Fraud | Error | Judgement | Planned response |
|----------|---|-------|-------|-----------|---|
| Page 161 | <p>2</p> <p>Valuation of investments within level 3 of the fair value hierarchy</p> <p>As at 31 March 2023 the fair value of investments classified within level 3 of the fair value hierarchy was £1,197m, which accounted for 23.7% of investment assets. The values included in the accounts are based on those provided by investment managers, updated by the Pension Fund for cash movements, where the most recently available information from fund managers is at a date prior to the year end.</p> <p>Level 3 assets are those assets where values are based on unobservable inputs, and consequently the estimation uncertainty for these assets is more significant than for assets valued at level 1 and 2.</p> | ○ | ● | ● | <p>We plan to address this risk by completing the following additional procedures on a sample basis:</p> <ul style="list-style-type: none"> • agree holdings from fund manager reports to the global custodian's report; • agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agree the investment manager valuations to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and • where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements. |

4. Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit Committee has knowledge of, the following matters:

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

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

Significant difficulties encountered during the course of audit

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

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

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

05

Section 05:

Fees for audit and other services

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5. Fees for audit and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of Teesside Pension Fund for the year ended 31 March 2024 are outlined below.

Fees for work as the Pension Fund's appointed auditor

At this stage of the audit, we are not planning any divergence from the scale fees set by PSAA.

| Area of work | 2023/24 Proposed Fee | 2022/23 Actual Fee |
|--|----------------------|--------------------|
| PSAA scale fee | £102,380 | £37,054 |
| Fee variation in respect of additional work required to comply with ISA540 | TBC | N/A |
| Audit related fees | | |
| Audit work carried out for employer body | TBC | N/A |

Fees for non-PSAA work

We have not been separately engaged by the Council to carry out additional work. Before agreeing to undertake any additional work, we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 6.

06

Section 06:

Our commitment to independence

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6. Our commitment to independence

| | | |
|---|---------------------------------|--|
|  | Requirements | We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019. |
|  | Compliance | We are not aware of any relationship between Mazars and Teesside Pension Fund that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Teesside Pension Fund and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit. |
|  | Non-audit and Audit fees | We have set out a summary any non-audit services provided by Mazars (with related fees) to Teesside Pension Fund in Section 5, together with our audit fees and independence assessment. |

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration.
- all new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- rotation policies covering audit engagement partners and other key members of the audit team.
- use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Kirkham in the first instance.

Prior to the provision of any non-audit services, Mark Kirkham will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

07

Section 07: **Materiality and misstatements**

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7. Materiality and misstatements

Definitions

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

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

Materiality

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

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

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

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

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

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

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

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

7. Materiality and misstatements

Materiality (continued)

We consider that net assets is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 1.0% of net assets.

As set out in the table below, based on currently available information, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £51.946m, and performance materiality to be in the region of £25.973m.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

| | 2023/24 £'000s |
|--|---------------------|
| Overall materiality | £51.946m |
| Performance materiality | £25.973m |
| Specific materiality for the Fund Account: <ul style="list-style-type: none">• Fund Account – overall materiality• Fund Account – performance materiality | £16.236m £8.118m |
| Clearly trivial threshold | £1.558m |

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £1.558m based on 3% of overall materiality. If you have any queries about this, please raise these with Mark Kirkham.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit Committee as follows:

- adjusted misstatements;
- unadjusted misstatements; and
- disclosure misstatements (adjusted and unadjusted).



Appendices

A: Key communication points

B: Current year updates, forthcoming accounting & other issues

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

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Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

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

Form, timing and content of our communications

We will present the following reports:

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

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

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

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our commitment to independence.

- Responsibilities for preventing and detecting errors.
- Materiality and misstatements.
- Fees for audit and other services.

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

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

Appendix A: Key communication points

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

| Required communication | Where addressed |
|--|--|
| Our responsibilities in relation to the financial statement audit and those of management and Those Charged With Governance. | Audit Strategy Memorandum |
| The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks. | Audit Strategy Memorandum |
| With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. | Audit Completion Report |
| With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of the Audit Committee to determine whether they have a 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 fraud may exist; and • a discussion of any other matters related to fraud. | Audit Completion Report and discussion at Audit Committee Audit Planning and Clearance meetings |

Appendix A: Key communication points

| Required communication | Where addressed |
|---|--------------------------------|
| <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. | <p>Audit Completion Report</p> |
| <p>Significant findings from the audit including:</p> <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 or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Pension Fund or the Audit Committee in the context of fulfilling their responsibilities. | <p>Audit Completion Report</p> |
| <p>Significant deficiencies in internal controls identified during the audit.</p> | <p>Audit Completion Report</p> |
| <p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p> | <p>Audit Completion Report</p> |

Appendix A: Key communication points

| Required communication | Where addressed |
|--|---|
| <p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and 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> | <p>Audit Completion Report and Audit Committee meetings</p> |
| <p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • 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; and • the adequacy of related disclosures in the financial statements. | <p>Audit Completion Report</p> |
| <p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p> | <p>Audit Completion Report</p> |
| <p>Indication of whether all requested explanations and documents were provided by the entity</p> | <p>Audit Completion Report</p> |
| <p>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management:</p> <ul style="list-style-type: none"> • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.</p> | <p>Audit strategy memorandum</p> |

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

Applicable for IFRS Reporters

Current and forthcoming accounting issue

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies* (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments* (Issued December 2021)

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 *Insurance Contracts* has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

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

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

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

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Pension Fund's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This [consultation](#) proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This [consultation](#) proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Pension Fund, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited statements of account; and

- Setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This [consultation](#) has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

Mark Kirkham, Partner

Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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| MIDDLESBROUGH COUNCIL |  |
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| Report of: | Chief Executive, Director of Finance and Director of Legal and Governance Services |
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| | |
|-----------------------------------|------------------------|
| Relevant Executive Member: | The Mayor, Chris Cooke |
|-----------------------------------|------------------------|

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| Submitted to: | Audit Committee |
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|--------------|--------------|
| Date: | 25 July 2024 |
|--------------|--------------|

| | |
|---------------|--|
| Title: | Corporate Governance Improvement Plan and Section 24 Action Plan Progress Report |
|---------------|--|

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|--------------------|-------------|
| Report for: | Information |
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| Status: | Public |
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| Council Plan priority: | Delivering Best Value |
|-------------------------------|-----------------------|

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| Key decision: | Not applicable |
|----------------------|----------------|

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| Why: | Not applicable |
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| Subject to call in? | Not applicable |
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| Why: | Not applicable |
|-------------|----------------|

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| Proposed decision(s) | |
| That Committee notes the progress against the Corporate Governance Improvement Plan and Section 24 Action Plan and agrees the proposed changes to milestones and activity in relation to the Section 24 Action Plan as outlined at paragraphs 6.7 to 6.10. | |

| | |
|--------------------------|--|
| Executive summary | |
|--------------------------|--|

This report sets out the key activities, progress and impact of the Corporate Governance Improvement Plan and activity in response to the Section 24 recommendations made by the Council’s External Auditors, since last reported to Committee in March 2024.

1. Purpose

1.1 This report sets out the key activities and progress since an update was last provided to committee, in response to the Section 24 recommendations made by the Council’s External Auditors and the Council’s Corporate Governance Improvement Plan.

2 Recommendations

2.1 That Committee notes the progress against the Corporate Governance Improvement Plan and Section 24 Action Plan and agrees the proposed changes to milestones and activity in relation to the Section 24 Action Plan as outlined at paragraphs 6.7 to 6.10.

3 Rationale for the recommended decision(s)

3.1 The Committee 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.

3.2 Member oversight is crucial in delivery of these actions and also provision of assurance that intended impacts to address the governance weaknesses identified by the Council’s External Auditors are being realised.

4 Background and relevant information

4.1 On 18 September 2023, Council received a report that set out the activities of Phase Three of the proposed Corporate Governance Improvement Plan, alongside the associated governance arrangements providing oversight of delivery. It also received a report from the Council’s External Auditors which made statutory recommendations in relation to the Council’s governance. This report provides an update on delivery against the action plan that was put in place in response to that report, as well as an update on delivery against the Corporate Governance Improvement Plan.

4.2 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.

5. Performance management methodology

5.1 The Council’s and Programme and Project Management policy set out the methodology used to assess and report on progress against delivery, which is applied across the Corporate Governance Improvement and Section 24 delivery plans.

| | |
|--------------------------|--|
| KEY: | |
| BLUE - COMPLETE | Activity delivered in full |
| GREEN – ON TRACK | Delivery plan activities are on track and / or a or above standard |
| AMBER – OFF TRACK | Delivery plan activities are < 5% below standard |

| | |
|-------------------------------------|--|
| RED – OFF TRACK | Delivery plan activities are > 5% below standard |
| IMPACT - NO CHANGE | The measures of success used to assess impact, refresh on differing time periods. Some are annual, others are more frequent. If it says no change, either the data has stayed the same or is not due to be refreshed |
| IMPACT MET – NO (AMBER) | Performance measures for this workstream are within 5% of the target |
| IMPACT MET – NO (RED) | Performance measures for this workstream are below target by more than 5% |
| IMPACT TREND – MIXED CHANGES | Of the range of performance measures that are against the workstream, some have improved, and others have worsened |

5.2 Overall performance in relation to delivery of activity across the two improvement plans is as follows (excluding activity not yet planned to start and not due to be delivered yet):

| Activity | STATUS AT 18/06/2024 | | | |
|--|----------------------|-------------|-------------|---------------------------------|
| | % On-track | % Off-track | % Delivered | Overall % on track or delivered |
| Corporate Governance Improvement Plan | 18% (17/95) | 4% (4/95) | 78% (74/95) | 96% |
| Section 24 Action plan | 7% (3/47) | 4% (2/47) | 89% (42/47) | 96% |

5.3 The above table shows that 96% of planned activity has either been delivered or is on-track for delivery in relation to the Corporate Governance Improvement Plan, with three planned activities across the 10 workstreams measuring as off-track.

5.4 96% of activity in relation to the Section 24 delivery plan is on-track or has been delivered, with one activity showing as off-track.

5.5 The remainder of this report sets out the detail of the delivery plan activity, alongside supporting measures of success that are in place to assess the impact of activity.

6. Corporate Governance Improvement Plan: progress status

6.1 For the current reporting period, seven of the workstreams are on target in terms of activity, as per timescales set out in the corporate Governance Improvement Plan, with three being off target currently in the Cultural Transformation plan, which are outlined below:

- *Development and delivery of an enhanced Member Development Strategy*– one milestone relating to undertaking a first annual review of the strategy is off-track as a date change for the first annual review was not made when the strategy first went live in November 2023. There is a change control proposed to undertake the first annual review by December 2024.
- *Development and implementation of an improved focus on employee performance and accountability* – a milestone relating to the target of 95% (75% of staff have had an appraisal to date) of all staff to have had an appraisal by end of March is off-track. This delay has further impacted upon a subsequent milestone relating to undertaking sample quality assurance of appraisal objectives setting. Two change controls have been proposed to extend the end dates of both as detailed in section 6.10. Additional activity is currently being undertaken to communicate to all managers to ensure appraisals take place and are recorded on the People Manager system.

- *Improving financial governance, spending controls and monitoring, by ensuring effective financial management across the organisation* – a milestone in relation to the development of a more efficient accounting, financial recording to reporting within Business World application is off track and a further milestone in relation to the implementation of compliance and enforcement protocols to embed governance arrangements into operational practice is also off-track. A change control to extend the due date on both has been proposed as detailed in section 6.10.

Measures of success

- 6.2 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. Some measures are ad hoc, some annual, while others are refreshed on a quarterly or monthly basis.
- 6.3 The Council continues to review its delivery plans and measures of success to ensure it is taking the right actions and is focussed on assessing the impact of its activity.
- 6.4 Since last reported, the following amendments have been proposed to the Measures of Success that assess the impact of the Council’s Corporate Governance improvement activity:
- 6.5 Summary of proposed new Measures of Success:

| Measure | Rationale |
|---|---|
| Forecast outturn is within the agreed budget | The previous measure tracked the 23/4 budget. This proposed new measure will track this year’s budget and future years |
| Maintain General Fund balance in line with approved reserves policy - 7.5% of the net revenue budget which would be £11.1m at 31/3/25 | Reflects the position as set out in the Reserves policy |
| Maintain unrestricted usable revenue reserves at a minimum of £8m at 31/3/25 | Reflects the position as set out in the Reserves policy |
| Balanced Budget for 2025/6 set | The previous measure tracked the 24/25 budget setting process. |
| Balanced Medium Term Financial Plan to 2028/9 | The previous measure tracked delivery of the MTFP to 2026/27 |
| Achievement of 3 star or higher rating for financial governance against the CIPFA criteria | This will be external validation of the Council’s financial governance health and will demonstrate the impact of activity on improved financial governance. This replaces two previous financial governance related measures with a Measure that can be externally validated. |

Key activities

6.6 The following activities within the governance improvement plan have been delivered since progress was last reported to Council:

| THEME | WORKSTREAM | COMPLETED ACTIVITIES WITHIN REPORTING PERIOD |
|-----------------------------------|---|---|
| Cultural Transformation | Development and implementation of a People Strategy | <p>Delivery ongoing of the Strategy against the underpinning delivery plan, feeding into corporate performance reporting cycle is ongoing.</p> <p>Insights Leadership workshops have been delivered to LMT, Executive and one combined session; to raise awareness of preferences, styles and increase relationship building.</p> <p>Workshop has been delivered to all Managers in the Council to explore the Corporate Plan and how it links into the daily work of staff and aligns to the People Strategy.</p> |
| | Development and implementation of a corporate governance training programme | All activities have now been completed. |
| | Ensure stable and sustainable leadership for the organisation | A recruitment plan / process has been developed for all interim appointments in a Leadership and Management position. |
| | Review the Council's approach to Member enquiries and engagement | The new Members enquiries system is now live, and all activities have now been completed. |
| | Develop and implement communications and engagement plan to support cultural transformation | Regular CGIP newsletter communications to all staff ongoing. |
| Financial Recovery and Resilience | Setting a balanced budget for 2024/25 to 2026/27 | All activities have now been completed. |
| | Improvements to financial governance, spending controls and monitoring through more effective financial management, across the organisation | <p>Delivery of training in budget management for Chief Officers, Heads of Service and Budget Managers as part of the Corporate Governance Training Programme has been undertaken.</p> <p>Establishment of 2024/25 budget management hierarchies, profiles and coding structures for more effective / robust budget management purposes has been completed.</p> <p>Delivery of training in Financial Procedure Rules (FPR) and Contract Procedure Rules (CPRs) has been completed.</p> |

Changes to delivery dates

6.7 Detailed delivery milestone plans have been developed to underpin all workstream activities within the improvement plan.

- 6.8 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.
- 6.9 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 and transparency.
- 6.10 The following change controls were presented to Council in the latest update report which was due to be considered at the Council meeting on 17 July 2024:

- *Cultural Transformation:*

- CT2.06: one milestone relating to undertaking a first annual review of the strategy is off-track as a date change for the first annual review was not made when the strategy first went live in November 2023. There is a change control proposed to undertake the first annual review by December 2024.
- CT5.07: Monitoring of Appraisal completions - 95% (75% of staff have had an appraisal to date) of staff in work to have had an appraisal - Change control to 30/09/2024 to reflect the delay in the completion of staff appraisals in some areas. Action is underway to address this.
- CT5.08: Quality assurance sample of objective setting and follow up guidance to Managers via HR BPs – Change control to 31/10/2024 following the completion of CT5.07 milestone.
- CT7.07: Consider results of May 2024 staff survey to assess how engaged staff feel in communications relating to corporate governance improvement is slightly off track due to the staff survey end date being extended. Change control to 31/07/2024.
- FRR3.11: Development of more efficient accounting, financial recording to reporting, within Business World application – Training on Business World still to take place, some training has taken place, however system users are requesting further training and taking on board initial findings of CIPFA. Change control to 31/12/2024.
- FRR3.15: Establish and implement compliance and enforcement protocols to embed governance arrangements into operational practice – further strengthening of performance management and disciplinary processes regarding non-compliance have delayed completion. Change control to 31/07/2024.

| Theme | Key tasks / milestones | Original target date | Revised target date |
|-------------------------|---|----------------------|---------------------|
| Cultural Transformation | CT2.06: Undertake first annual review of strategy, assessing delivery and impact on measures of success, reporting findings to Leadership Management Team, Audit Committee and full Council | 31/10/2023 | 31/12/2024 |
| | CT5.07: Monitoring of Appraisal completions - 95% of staff in work to have had an appraisal | 31/03/2024 | 30/09/2024 |
| | CT5.08: Quality assurance sample of objective setting and follow up guidance to Managers via HR BPs | 31/07/2024 | 31/10/2024 |
| | CT7.07: Consider results of May 2024 staff survey to assess how engaged staff feel in communications relating to corporate governance improvement | 31/06/2024 | 31/07/2024 |

| | | | |
|--|--|------------|------------|
| | FRR3.11: Development of more efficient accounting, financial recording to reporting, within Business World application | 30/06/2024 | 31/12/2024 |
| | FRR3.15: Establish and implement compliance and enforcement protocols to embed governance arrangements into operational practice | 31/03/2024 | 31/07/2024 |

Summary of progress against plan and measures of success

6.11 The following tables set out a summary position against planned activity and progress against the measures of success that have been agreed to track the long-term impact of this plan. This table reflects the current status – as per the above change controls that have been considered by LMT and IIAB.

| CULTURAL TRANSFORMATION | ACTIVITY TRACKING | | OUTCOME IMPACT | | LMT LEAD | EXEC MEMBER |
|---|-------------------|--------------|----------------|--------------------|-----------------------|---------------|
| | CURRENT STATUS | PREV. STATUS | IMPACT TREND | IMPACT TARGET MET? | | |
| Development / implementation of People and Cultural Transformation Strategy | Green | Green | Mixed change | No | C Benjamin | Cllr N Walker |
| Development / implementation of Member Development Strategy and Programme | Amber | Green | No change | No | C Benjamin | Cllr N Walker |
| Development / implementation of a corporate governance training programme | Complete | Complete | No change | Yes | C Benjamin | Cllr N Walker |
| Ensure stable and sustainable leadership for the organisation | Green | Green | Mixed change | No | C Heaphy / C Benjamin | Mayor Cooke |
| Development / implementation of improved focus on employee performance and accountability | Amber | Green | No change | Yes | C Heaphy | Cllr N Walker |
| Review Council's approach to Member enquiries and engagement | Complete | Green | No change | No change | C Benjamin | Cllr N Walker |
| Develop / implement communications and engagement plan to support cultural transformation | Green | Green | No change | No | C Heaphy | Mayor Cooke |

| FINANCIAL RECOVERY AND RESILIENCE | ACTIVITY TRACKING | | OUTCOME IMPACT | | LMT LEAD | EXEC MEMBER |
|-----------------------------------|-------------------|--------------|----------------|--------------------|----------|-------------|
| | CURRENT STATUS | PREV. STATUS | IMPACT TREND | IMPACT TARGET MET? | | |

| | | | | | | |
|--|----------|----------|-----------|-------|-------------|---------------|
| Controlling 2023/24 expenditure to within approved budgets | Complete | Complete | Improved | No | D Middleton | Cllr N Walker |
| Setting a balanced budget for 2024/25 to 2026/27 | Complete | Complete | No change | No | D Middleton | Cllr N Walker |
| Improvements to financial governance, spending controls and monitoring through more effective financial management | Red | Green | No change | Mixed | D Middleton | Cllr N Walker |

7. Independent Improvement Advisory Board

7.1 Since its work was last reported in March 2024, the Improvement Board as met on 16 April and 23 May and will meet on 10 July, after this report has been published.

7.2 In its April and May meetings the Board has considered reports and presentations on the following:

- Progress within the transformation programme. The Board is reviewing the programme on a theme by theme basis. Members of the Board have also observed a number of the transformation programme meetings that take place as part of steps to seek assurance around the governance of the transformation programme
- the 23/24 and 24/25 budget
- an overview of the Council’s improvement journey to date that set out what success will look like by each improvement theme within the Best Value Notice, has been achieved so far and what is next
- a standing update on progress against the improvement plan and Section 24 report.

7.3 During that time the Board has also met with:

- the Chair of the Children’s Improvement Board to review common areas of interest
- the Chairs of Audit, Scrutiny and Member Development committees
- a range of external partners.

7.4 In mid-July the Board will issue its third progress report for the Council’s consideration. In line with agreed reporting for this, the report will be considered by Executive on 24 July 2024.

7.5 Action points arising from formal Improvement Board meetings, excluding admin related tasks, e.g., facilitation of meetings, are set out at Appendix 3, alongside a summary of information requested by the Board.

7.6 In April 2024 Board members were asked if they would be able to extend their support for the Council’s improvement journey past the original planned end date of October 2024. Unfortunately this was not possible for the Finance lead on the board due to other commitments, therefore the Council are actively seeking replacement support from a

finance specialist. The Chief Executive and Mayor would like to place their thanks to Chris Buss, the Finance lead, on record.

8. Section 24: progress update

8.1 The table below sets out the current status of activity in response to the Section 24 recommendations, along with a summary of the impact these activities are having on the longer-term measures of success that have been set in order to enable the Council to be able to assess whether the activities are having the intended impact.

8.2 Since the last report a further two actions have been completed and the measure of success for another has been achieved:

| S24 ACTIONS | ACTIVITY TRACKING | | OUTCOME IMPACT | |
|--|-------------------|--------------|----------------|------------------------|
| | CURRENT STATUS | PREV. STATUS | IMPACT TREND | IMPACT TARGET MET? |
| 1. Progression of next phase of Corporate Governance Improvement Plan, prioritising actions to address cultural and governance issues. | Complete | Complete | Complete | Complete |
| 2. Development of contingency and succession governance protocols to mitigate potential impact of any future changes in senior leadership. | Green | Green | No change | Yes |
| 3. Conclusion of Constitution review and provision of officer / member training ensuring changes are understood and implemented. | Complete | Complete | No change | No |
| 4. Identification of deliverable short-term savings, protecting limited remaining reserves, considering statutory responsibilities and delivery of services. | Complete | Complete | N/A | Baseline set for 24/24 |
| 5. Review service delivery models to ensure that they are efficient, represent value for money and achieves the outcomes required. | Complete | Complete | N/A | N/A |
| 6. Review of financial forecasting processes to understand emergence of significant financial pressures, in both 22/23 and 23/24. | Green | Green | No change | Mixed |
| 7. Conclusion of Financial and Contract Procedure rules review to ensure they are fit for purpose. | Complete | Complete | Complete | Complete |
| 8. Provision of training on Financial and Contract Procedure rules to all officers involved in contracting, procurement or financial decisions. | Red | Red | N/A | N/A |
| 9. Completion of contract review to ensure compliance with Public Contracts Regulations 2015. | Complete | Complete | Complete | Complete |
| 10. Review oversight arrangements for Middlesbrough Development Company to assure value for money. | Complete | Complete | Complete | Complete |
| 11. Develop action plan for the demise of Middlesbrough Development Company setting out benefit realisation. | Complete | Complete | Complete | Complete |

*No baseline set

8.4 Across all S24 workstreams, one is reporting activity which is off target:

- *Recommendation 8, Financial and Contract Procedure rules:*
 - S8.07: Establish compliance and enforcement protocols to embed the governance arrangements into operational practice is slightly delayed due to further strengthening of performance management and disciplinary processes regarding non-compliance. Change control to 31/07/2024.
 - S8.08: Develop and deliver improved training and tools for all users of the Council’s corporate finance system to facilitate compliance has been delayed due to training on Business World still to take place. Some training has taken place; however system users are requesting further training following initial findings of CIPFA review

Section 24: key activities

8.5 89% of all planned activities within the Section 24 Action plan have now been delivered. Progress against the Section 24 action plan agreed since last presented to Council is set out below:

| REC | ACTIVITY |
|--------|---|
| S5.01 | The Council’s strategic planning and budget development process for setting a balanced budget for 2024/25 and over the period of the MTFP to 2026/27 to consider opportunities for managing service demand, service redesign and transformation, reduced levels and stopping services |
| S6.03 | Development of a first stage transformation programme (2024/25 to 2026/27) to review service delivery models to maintain / improve service outcomes from an affordable and sustainable cost base. |
| S8.02 | All budget managers and staff involved in purchase to pay activities, to undertake mandatory face-to-face training. |
| S8.03 | Implementation of monthly budget monitoring and forecasting to analyse cost and volume variances, driving proactive management intervention in services to address areas of overspend and income shortfalls. |
| S8.04 | Develop budget management and purchase to pay dashboards to drive compliance through improved management information. |
| S8.05 | Delivery of training in budget management for Chief Officers, Heads of Service and Budget Managers as part of the Corporate Governance Training Programme. |
| S8.06 | Deliver mandatory training in budget management tools for Chief Officers, Heads of Service and Budget Managers |
| S11.01 | Provision of a closure report on Middlesbrough Development Company to Executive |

Changes to delivery dates

8.6 5 minor change controls were presented below for Council consideration on 24 July 2024 to workstream activities. They reflect adjustments in prioritisation and chronology of activities:

| Key tasks / milestones | Original target date | Revised target date |
|--|-----------------------------------|---------------------------------------|
| S8.07: Establish compliance and enforcement protocols to embed the governance arrangements into operational practice | Original start date 01/01/2024 | Revised completion date 31/07/2024 |
| S8.08: Develop and deliver improved training and tools for all users of the Council’s corporate finance system to facilitate compliance. | Original start date 28/02/2024 | Revised completion date 31/12/2024 |

Section 24: measures of success

8.7 There are currently 22 measures of success in place to assess the impact of activity within the Section 24 action plan:

- seven are now complete
- six are on or above target
- three are below target
- Measures of Success relating to the 23/24 budget position have now been removed and replaced with 2024/25 measures of success
- Five cannot yet be measured.

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

9.1 Not applicable.

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

Financial (including procurement and Social Value)

10.1 Not applicable.

Legal

10.2 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

10.3 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

10.4 Not applicable.

Climate Change / Environmental

10.5 Not applicable.

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

10.6 Not applicable.

Data Protection / GDPR

10.7 Not applicable.

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

10.8 Not applicable.

Appendices

| | |
|----------|--|
| 1 | Corporate Governance Improvement Plan: measures of success |
| 2 | Section 24 Plan: Measures of success |
| 3 | Key activities update from the Board |

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 |
| Audit committee | Corporate Governance Improvement Plan and Section 24 Action Plan progress report | 14 December 2023 |
| Audit Committee | Corporate Governance Improvement Plan and Section 24 Action Plan progress report | 1 February 2024 |
| Audit Committee | Corporate Governance Improvement Plan and Section 24 Action Plan progress report | 14 March 2024 |
| Council | Corporate Governance Improvement Plan and Section 24 Action Plan progress report | 27 March 2024 |
| Council | Second Progress report of the Middlesbrough Independent Improvement Advisory Board | 27 March 2024 |
| Councilq | Corporate Governance Improvement Plan and Section 24 Action Plan progress report | 24 July 2024 |

Contact:

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Ann-marie_johnstone@middlesbrough.gov.uk

Appendix 1: Corporate Governance Improvement Plan: measures of success

| Outcome | Measure of Success | Current performance | Previous performance | Target | Status against target | 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 | No change | Improved | 0 | Below target | every 2 months | 2 out of 16 complete audits | March 2024 report | 2 out of 12 complete audits | December 2023 report |
| | Improve the percentage of priority One and Priority Two actions from Internal Audits that are delivered within original timescales | n/a baseline | Improved | 80% or higher | n/a baseline | Quarterly | No P1s or P2s so far in 24/25 | Jun-24 | 20% of P1 actions and 13% of P2 actions were complete within original timescales | Mar-24 |
| Improved relationships between officers and members | Staff and Member surveys to assess health of relationships and direction of travel | No change | n/a baseline | 50% of staff and 80% of councillors or higher | Below target | Ad hoc | 77% of heads of service and directors now view relationships with Executive members as positive or very positive (22 respondents) | Dec-23 | 26.6% of staff think relationships are somewhat or very positive, compared to 69% of Councillors | August 2023 Survey |
| Improved retention of staff | Staff turnover rates – Number of leavers | No change | Improved | 5% | Above target | Quarterly | 3.40% | Q4 2023/24 | 5.60% | Quarter 3 2023/24 |
| Improved staff satisfaction | 1-10 Score of how valued staff feel as an employee of the Council | No change | n/a baseline | 6.2 or higher | Below target | 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 | Worse | Worse | 75 | Below target | Monthly | 164 | Jun-24 | 135 | May-24 |
| | Number of agency staff working for Middlesbrough Council – Transformation | No change | No change | No target set | No target set | Monthly | 10 | Jun-24 | 10 | May-24 |
| 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 | No change | No change | 3 | At target | Monthly | 3 | Jun-24 | 3 | May-24 |
| 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 | Worse | Less than 150 | Below target | Monthly | 174 | May-24 | 221 | Apr-24 |
| | % of complaints upheld or partially upheld by the central team | Worse | Worse | Less than 40% | Below target | Monthly | 75% | May-24 | 60% | Apr-24 |
| Members have a Member development programme that meets their needs and is well used | Percentage of members completing all mandatory training | Complete | Complete | 100% | At target | Annual | 100% | Oct-23 | 100% | Oct-22 |
| | Percentage of Members attending wider skills | n/a baseline | n/a baseline | 95% | Above target | Annual | 98% | Oct-23 | Data not available | Oct-22 |
| | Member satisfaction with the Member development programme | n/a baseline | n/a baseline | 90% | Below target | 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 | Improved | n/a baseline | 95% | Below target | Annual | 63% | Jun-24 | 48% | May-24 |
| Improved Member behaviour | Number of member on member complaints received | No change | Improved | 2 or fewer per quarter | Above target | Quarterly | 0 | Q4 2023/24 | 6 complaints received member on member | Q3 2023/24 |
| Residents are increasingly satisfied with the way the Council is ran and with the Council overall | Questions within the 2023 Resident survey currently underway | No change | n/a baseline | 61% (NE average 21/22) | Below target | 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 | No change | Not previously asked | 55% (NE average 21/22) | Below target | TBD | 43% | Nov-23 | n/a | Not previously asked |

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Cultural Transformation

| | Outcome | Measure of Success | Current Performance | Previous Performance | Target | Status Against Target | Frequency of data refresh | Current performance data: | Current performance period: | Previous performance data: | Previous performance period: |
|---|---|---|--------------------------------------|----------------------|--|-----------------------|-------------------------------|---|--------------------------------------|---|------------------------------|
| Financial Recovery and Resilience | Expenditure for 2023/24 is completed within the approved 2023/24 budget | Actual expenditure and Forecast revenue outturn within the approved budget | No change | Improved | £0 | Below target | Quarterly report to Executive | £3.6m | Period 10 2023/24 | £7.023m | Period 8 2023/24 |
| | Maintain General Fund balance and usable revenue reserves at 31/3/23 levels | Maintain GF balance at £12m at 31/3/24 | Complete | Improved | £12m or more | Below target | Annually | £10.986m on 31/3/24 (but on 1/4/24 will increase to £11.1m due to release of Collection Fund surplus) | 23/24 outturn (to Executive 26/6/24) | £9.09m | Q3 23/24 |
| | | Maintain unrestricted usable revenue reserves at a minimum of £4m at 31/3/24. | Complete | Improved | £4m or more | Above target | Annually | £11.05m on 31/3/24 (but on 1/4/24 will increase to £9.280m due to release of Collection Fund surplus) | 23/24 outturn (to Executive 26/6/24) | £6.3m | Feb-24 |
| | Establish Medium Term Plan to rebuild GF Balance and revenue reserves | Section 151 Officer assessment of adequacy of reserves | Complete | n/a | n/a | Complete | Feb-24 | Judgement of S151 officer | Feb 2024 report to Council | n/a sufficient resources in place - judgement of S151 officer | Feb 2023 report to Council |
| | Financial Procedure Rules and Contract Procedure Rules training delivered | LMT, WLMT, all Budget Holders trained by 31 December 2023 | Complete | Improved | 95% or higher | Complete | Monthly | 87.66% | Jun-24 | 86.88% | May-24 |
| | Corporate finance training programme established | Quarterly programme of finance training established | 100% | n/a baseline | One training session delivered per quarter | Complete | Quarterly | 100% | Feb-24 | 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 | Complete | n/a | Dashboard in place | Complete | 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 | Complete | n/a | 95% or higher | n/a at this stage | n/a one off measure | n/a due from April 2024 onwards | n/a | n/a | n/a |
| | 2024/25 net expenditure is delivered within the approved budget | Forecast outturn is within the agreed budget | n/a to be reported from June onwards | n/a | Compliant / within budget | n/a | | | | | |
| | The Council's financial position is sustainable | Maintain GF balance in line with approved reserves policy - 7.5% of the net revenue budget which would be £11.1m at 31/3/25 | At target | Improved | £11.1m | At target | Annually | £11.1m | Apr-24 | n/a | n/a |
| | The Council's financial position is sustainable | Maintain unrestricted usable revenue reserves at a minimum of £8m at 31/3/25 | At target | Improved | £8m | At target | Annually | £8m | May-24 | n/a | n/a |
| | 2025/6 budget is set and balanced | Balanced Budget for 2025/6 set | Not yet measured | n/a | £0 variance | baseline set | Quarterly | n/a | n/a | n/a | n/a |
| | Set a sustainable Medium Term Financial Plan in place for the period 2025/6 to 2028/9 | Balanced MTFP to 2028/9 | Below target | n/a | Compliant / within budget | Below target | Annually | n/a | n/a | n/a | n/a |
| Robust financial governance is in place | Achievement of 3 star or higher rating for financial governance against the CIPFA criteria | Below target | n/a | 3 star or higher | Below target | 18 months | 2 star | Jun-24 | n/a | n/a | |

Appendix 2 – Measures of success – Section 24 Report

| Recommendation | Measure of Success | Current performance | Target | Status against target | Frequency of data refresh | Current performance data: | Current performance period: | Previous performance data: | Previous performance period: |
|----------------|--|---------------------|---------------------|--------------------------|---------------------------|---|-----------------------------|--|------------------------------|
| 1 | Delivery of the Corporate Governance Improvement Plan activity | Complete | n/a | Complete | Monthly | 6 out of 10 workstreams activity on target | Nov-23 | 10 out of 10 | Oct-23 |
| 2 | Number of roles at Head of Service and above that are vacant / occupied by Agency or interim staff | No change | 3 | At target | Monthly | 3 | Jun-24 | 3 | May-24 |
| 2 | Number of Transformation roles that are vacant / occupied by Agency or interim staff | No change | No target set | No target set - baseline | Monthly | 10 | Jun-24 | 10 | May-24 |
| 3 | Reduce the number of audits that have limited or no assurance | No change | 0 | Below target | Quarterly | 2 out of 16 complete audits | March 2024 report | 2 out of 12 complete audits | December 2023 report |
| 3 | Improve the percentage of priority One and Priority Two actions from Internal Audits that are delivered within original timescales | n/a baseline | 80% or higher | n/a baseline | Annual | No P1s or P2s so far in 24/25 | Jun-24 | 20% of P1 actions and 13% of P2 actions were complete within original timescales | Mar-24 |
| 3 | Percentage of members completing all mandatory training | Complete | 100% | Complete | Annual | 100% | Oct-23 | 100% | Oct-22 |
| 3 | Percentage of Members attending wider skills | No change | 95% | Above target | Annual | 98% | Oct-23 | Data not available | Oct-22 |
| 3 | Member satisfaction with the Member development programme | No change | 90% | Below target | 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 |
| 4 | 2024/25 revenue budget is balanced and maintained during 2024/25 | n/a baseline | Balanced budget set | At target | Quarterly | Balanced budget set | Feb-24 | n/a | n/a |
| 5 | 90% of projects within the programme, once launched are on track | | n/a | n/a at this stage | Quarterly once live | 90% once launched | n/a | | |
| 5 | 90% of benefits from projects realised in line with benefits realisation trackers | | n/a | n/a at this stage | Quarterly once live | 90% once launched | n/a | | |

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| Recommendation | Measure of Success | Current performance | Target | Status against target | Frequency of data refresh | Current performance data: | Current performance period: | Previous performance data: | Previous performance period: |
|----------------|---|---------------------|--------------------|-----------------------|---------------------------|---|--------------------------------------|----------------------------|------------------------------|
| 6 | Actual expenditure and Forecast revenue outturn within the approved budget for 2023/2024 | Complete | £0 | Complete | Quarterly | £3.6m | Period 10 2023/24 | £7.023m | Period 8 2023/24 |
| 6 | Balanced MTFP to 2026/27 | Below target | Balanced MTFP set | n/a baseline | Annually | n/a | n/a | n/a | n/a |
| 6 | Maintain GF balance at £12m at 31/3/24 | Complete | £12m or more | Improved | Annually | £10.986m on 31/3/24 (but on 1/4/24 will increase to £11.1m due to release of Collection Fund surplus) | 23/24 outturn (to Executive 26/6/24) | £9.09m | Q3 23/24 |
| 6 | Maintain usable revenue reserves at a minimum of £4m at 31/3/24. | Complete | £4m or more | Improved | Annually | £1.069m on 31/3/24 (but on 1/4/24 will increase to £9.280m due to release of Collection Fund surplus) | 23/24 outturn (to Executive 26/6/24) | £6.3m | Feb-24 |
| 6 | Set 2024/25 revenue budget | Complete | | | | Balanced budget set | Feb-24 | n/a | n/a |
| 6 | Maintain expenditure in line with agreed budgets in 2024/5 | n/a baseline | | n/a baseline | | | | | |
| 6 | Maintain GF balance at £11.1m at 31/3/24 | At target | 11.1m | n/a baseline | | 11.1m | Q1 | | |
| 6 | Maintain usable revenue reserves at a minimum of £4m at 31/3/24. | Improved | Between 8m and 10m | n/a baseline | | 9.25m | Q1 | 6.2m | Q3 23/24 |
| 7 and 8 | LMT, WLMT, all Budget Holders and all staff involved in Purchase to Pay trained by 31 December 2023 | Complete | 100% | Complete | Monthly | 100.00% | Feb-24 | 76.88% | Jan-24 |
| 8 | Deliver training to LMT, WLMT and all budget holders in use of Power BI budget monitoring dashboard to support budget monitoring and forecasting in 2024-25 by 30 June 2024 | Improved | 100% | n/a baseline | Monthly | 100% of LMT 70% DMT Wider teams in next phase | Jun-24 | n/a | n/a |
| 9 | Number of contract extensions that do not comply with contract extension rules | At target | 0 | n/a | Quarterly | 0 | Mar-24 | 0 | 2022/23 |

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

| Information requests | Status |
|---|----------|
| The recent survey of Members in relation to Members Enquiries should be shared with the Board | Complete |
| The CIPFA report on Financial Governance should be shared with the Board | Complete |
| The Calendar of meetings for Transformation Programme Board and Thematic Board meetings to enable Board members to observe meetings | Complete |

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| Major comments / action points |
|--|
| The Council should provide further support to Members to encourage them to engage in budget discussions. |
| Provision of updates on delivery of the People Strategy since launched in April and an update on activity undertaken on Leadership was requested – this has been provided to the Board for consideration at its July 2024 meeting. |
| Recommendation that the Council reestablish reporting budget and performance outturns to Overview and Scrutiny Board. |

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| MIDDLESBROUGH COUNCIL |  |
|------------------------------|--|

| | |
|-------------------|---------------------------------|
| Report of: | Head of Internal Audit, Veritau |
|-------------------|---------------------------------|

| | |
|-----------------------------------|---|
| Relevant Executive Member: | Executive Member for Finance and Governance |
|-----------------------------------|---|

| | |
|----------------------|-----------------|
| Submitted to: | Audit Committee |
|----------------------|-----------------|

| | |
|--------------|--------------|
| Date: | 25 July 2024 |
|--------------|--------------|

| | |
|---------------|---|
| Title: | Internal Audit and Counter Fraud Work Programme 2024/25 |
|---------------|---|

| | |
|--------------------|-------------|
| Report for: | Information |
|--------------------|-------------|

| | |
|----------------|--------|
| Status: | Public |
|----------------|--------|

| | |
|----------------------------|-----|
| Strategic priority: | All |
|----------------------------|-----|

| | |
|----------------------|----|
| Key decision: | No |
|----------------------|----|

| | |
|-------------|----------------|
| Why: | Not applicable |
|-------------|----------------|

| | |
|-----------------------------|----|
| Subject to call in?: | No |
|-----------------------------|----|

| | |
|-------------|----------------|
| Why: | Not applicable |
|-------------|----------------|

| |
|--------------------------|
| Executive summary |
|--------------------------|

| |
|--|
| <p>This report provides the committee with:</p> <ul style="list-style-type: none"> • The internal audit and counter fraud work programmes for 2024/25 |
|--|

Purpose

1. To seek Members' approval for the 2024/25 planned programme of internal audit, and to ask Members to note the counter fraud 2024/25 work programme.

Background and relevant information

2. Internal audit provides 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 present the internal audit and counter fraud work programmes for 2024/25.

Internal Audit work programme

6. Appendix 1 sets out proposed internal audit work for 2024/25. The planned work is based on an initial assessment of risk undertaken. The identification of risks included in the assessment has been informed in a number of ways. This includes review of the organisational risk management processes, sector-wide risk information, understanding the Council's strategies and objectives, other known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in Council services and systems.
7. The proposed areas of coverage been subject to consultation with the Audit Committee in February 2024 and senior officers including Directorate Management Teams and the Leadership and Management Team.
8. To meet professional aims and objectives, good practice for internal audit requires us to adopt flexible planning processes. This helps to ensure that internal audit work undertaken during the year is adapted on an ongoing basis to reflect changing and emerging risks within the Council.
9. We will regularly discuss the scope and timings of work with officers and management to help ensure that we provide assurance in the right areas and at the right time. Further meetings will be held throughout the year to plan and confirm the scope and timings of audit work. We will also provide regular updates to the Audit Committee on the coverage, scope and findings of our work.
10. Total days allocated to internal audit assurance in 2024/25 are 555.

Counter Fraud work programme

11. Proposed areas of counter fraud work in 2024/25 are set out in Appendix 2. No estimate of time is made for each area as this will depend on the levels of suspected fraud reported to the team. The priorities for the work programme are set annually in the Council's Counter Fraud Strategy Action Plan and annual Fraud Risk Assessment which were most recently presented to the committee in October 2023.
12. Total days allocated to counter fraud work in 2024/25 are 150.

What decision(s) are being recommended?

That the Audit Committee

- approves the internal audit work programme and notes the counter fraud work programme for 2024/25

Rationale for the recommended decision(s)

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

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

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

Impact(s) of the recommended decision(s)

Financial (including procurement and Social Value)

15. There are no specific impacts or implications.

Legal

16. There are no specific impacts or implications.

Risk

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

Human Rights, Public Sector Equality Duty and Community Cohesion

18. There are no specific impacts or implications.

Climate Change / Environmental

19. There are no specific impacts or implications.

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

20. There are no specific impacts or implications.

Data Protection / GDPR

21. 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 work programme 2024/25 |
| 2 | Counter fraud work programme 2024/25 |

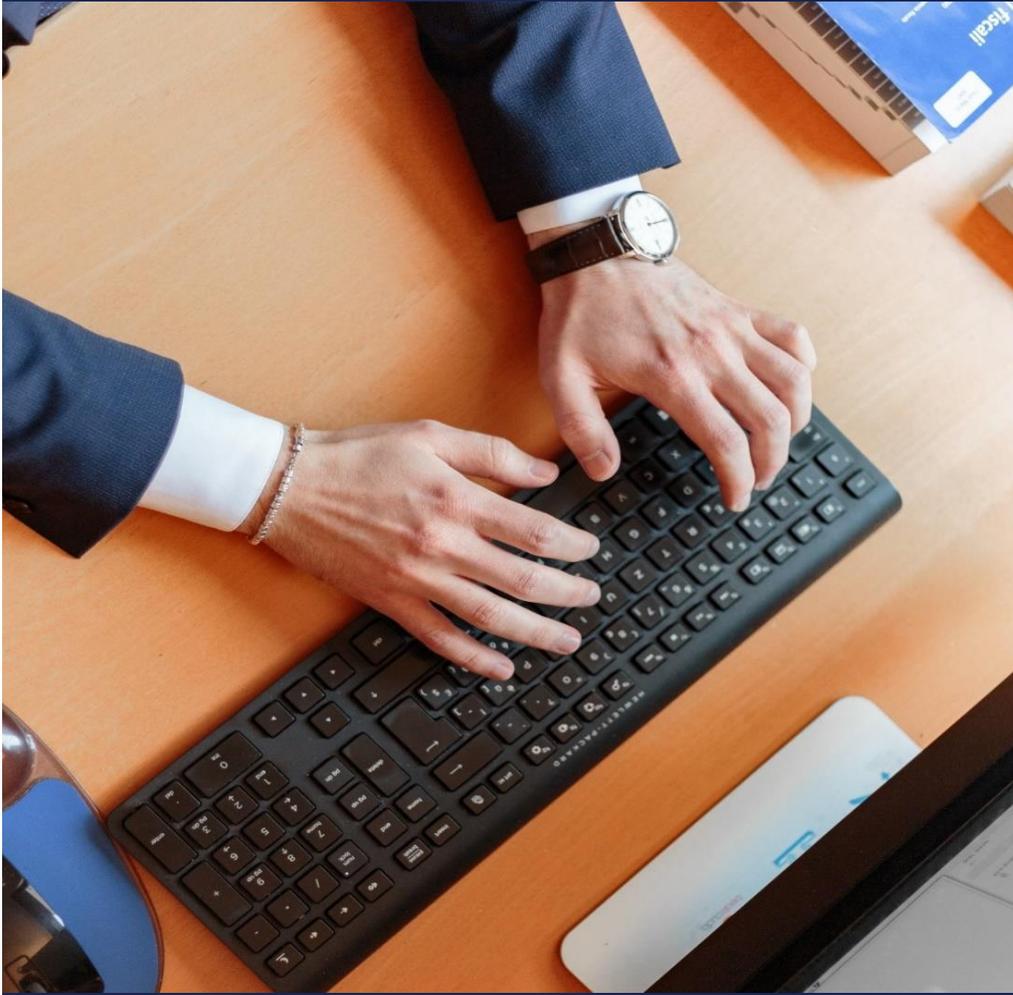
Background papers

| Body | Report title | Date |
|------|--------------|------|
| n/a | n/a | n/a |

Contact: Phil Jeffrey
Email: phil.jeffrey@veritau.co.uk

Contact: Jonathan Dodsworth
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Internal Audit Work Programme 2024/25

CONTENTS

- 3** Introduction
- 3** Strategic context
- 4** Programme principles and development
- 9** 2024/25 internal audit work
- 10** Annex A: indicative internal audit work programme

Introduction



- 1 This report sets out the proposed 2024/25 programme of work for internal audit, provided by Veritau for Middlesbrough Council.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the council's audit charter. To comply with professional standards and the charter, internal audit work must be risk based and take into account the requirement to produce an evidence-based annual internal audit opinion. Accordingly, planned work should be reviewed and adjusted in response to changes in the business, risks, operations, programmes, systems and internal controls.
- 3 Specifically, the PSIAS require that the Head of Internal Audit *"must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk-based plan must take into account the requirement to produce an annual internal audit opinion."*
- 4 The Head of Internal Audit's annual opinion is formed following an independent and objective assessment of the effectiveness of the framework of risk management, governance and internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the council, and to produce a body of work which allows us to provide our opinion.
- 5 Responsibility for effective risk management, governance and internal control arrangements remains with the council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control nor can audit work cover all areas of risk across the organisation.

Strategic context



- 6 The Council is facing unprecedented financial pressures because of the continued increase in demand for its services and the impact of inflation and economic uncertainty. In the Council's report to Executive on 22 May 2024 it highlighted that the Council's financial position 'remains critical' following the need to rely on Exceptional Financial Support (EFS) from central government to balance the 2024/25 budget.
- 7 The Council is also embarking on an ambitious transformation programme entitled "Recover, Reset and Deliver" to transform the Council operationally and culturally into an organisation that can modernise services and deliver them effectively.
- 8 This is against a backdrop of governance issues that have affected the Council in recent years. Central government issued a revised Best Value Notice in January 2024 with clear expectation on the Council to demonstrate "capacity to transform at pace" and make clear progress against previously identified governance and cultural issues. In short, the Council is expected to deliver more with less.

- 9 The Council includes transformation as one of its key ambitions set out in the Council Plan 2024-27. Other ambitions relate to maximising economic growth, health and wellbeing, creating a safer environment and delivering best value.

Programme principles and development



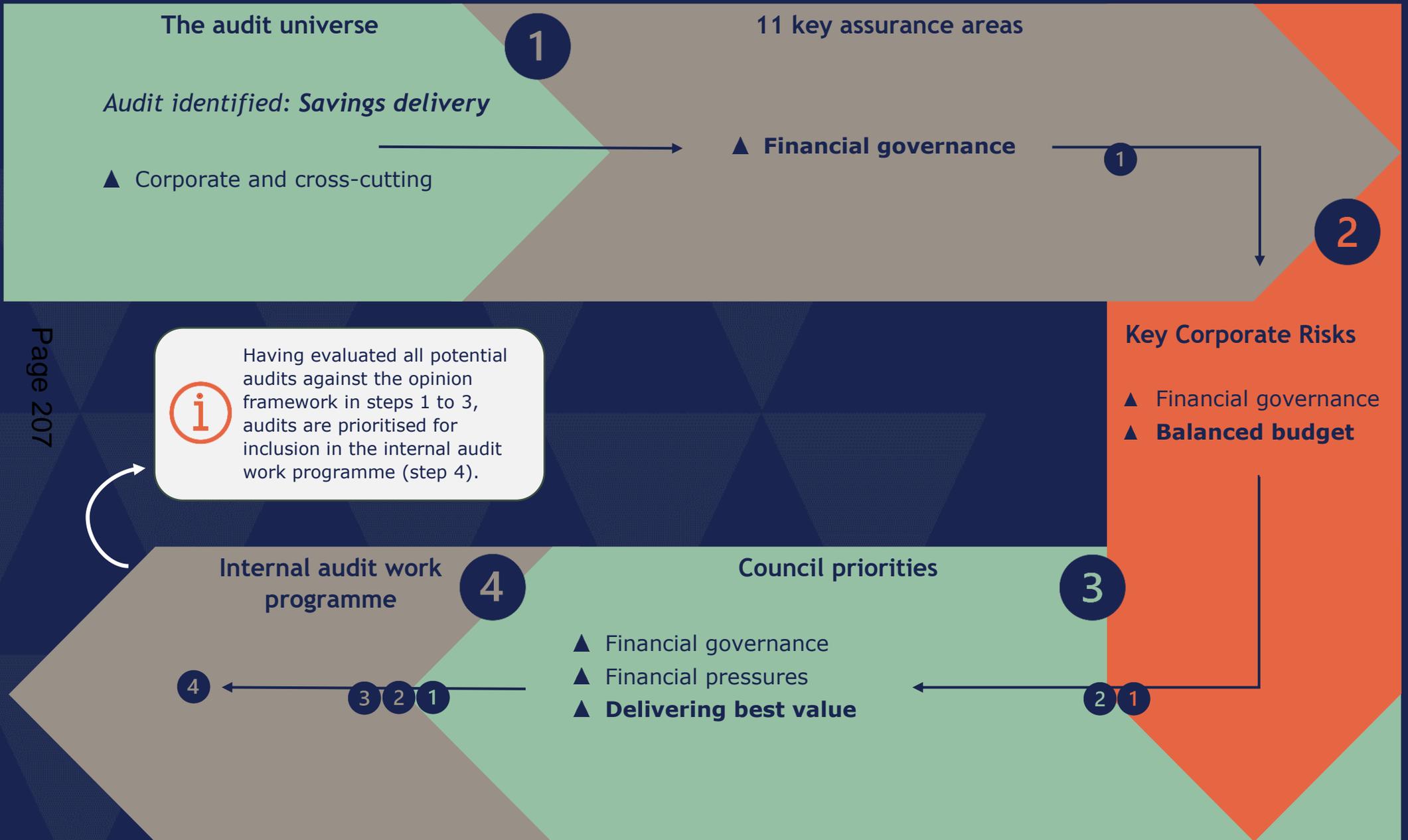
Flexible, risk-based planning and the opinion framework

- 10 In order to best meet professional standards, internal audit is required to adopt flexible planning processes that are sensitive to risk. This flexibility and risk-based approach are driving principles for delivery of the Council's 2024/25 internal audit work programme.
- 11 The Audit Committee was introduced to Veritau's opinion framework as part of the 1 February 2024 internal audit work programme consultation report.
- 12 The opinion framework sets out the principles that will be used to develop and manage the audit work programme over the course of the year. It ensures that assurance coverage is targeted towards priority areas. This, in turn, allows us to arrive at a properly informed annual opinion.

Identification of initial internal audit priorities

- 13 Internal audit maintains a long list of all areas within the council that could potentially be audited. It is not possible to review all areas in any one year. Instead, we prioritise audits by considering potential risks in each area at the time of the assessment and by considering requirements for assurance coverage.
- 14 The opinion framework provides the structure for internal audit to take informed decisions on priorities.
- 15 Figure 1 on the following page demonstrates how the framework is applied to identify initial internal audit priorities. It illustrates how an example audit ('savings delivery') passes through the framework and how we evaluate it for potential inclusion in the work programme. In this case, we have assessed the savings delivery audit as a high priority for inclusion as it contributes to coverage of a key assurance area, a key corporate risk, and a council priority. The committee will note that the savings delivery audit has been included in the 2024/25 indicative internal audit work programme at annex A.

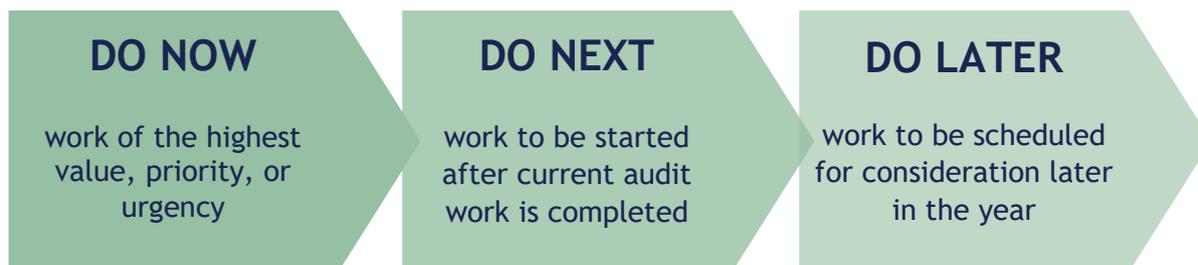
APPLYING THE FRAMEWORK: A WORKED EXAMPLE



The 'do now', 'do next', 'do later' audit prioritisation system

- 16 Once initial internal audit priorities have been identified through application of the opinion framework, we then overlay a second system of prioritisation. This system allows us to determine the relative priority of audits included in the indicative work programme.
- 17 This second prioritisation system sees audits assigned to one of three categories, as shown in figure 2 below.

Figure 2: 'do now', 'do next', 'do later' prioritisation system.



- 18 Decisions on which category of the three categories internal audit work falls into will be based on judgement and will be made having given consideration to the prioritisation factors in table 1 below. These will result in internal audit work being considered a relatively higher or lower priority at the time of assessment.

Table 1: Internal audit prioritisation factors.

| Prioritisation factors | |
|--|---|
| ▲ where we have no recent audit assurance, or other sources of information | ▲ where controls are changing and / or risks are increasing |
| ▲ where we are following up previous control weaknesses | ▲ where specific issues are known to have arisen |
| ▲ that are of significant importance to the council, for example they reflect key objectives or high priority projects | ▲ that provide broader assurance, for example corporate policies and frameworks |
| ▲ that need to be covered to enable us to provide an annual opinion | ▲ where there are time pressures or scheduling requirements, for example grant deadlines, or work scheduled to minimise the impact on council service areas at busy times |

- 19 The above factors will be used on an ongoing basis to decide what internal audit work will be carried out, and when, during the course of the year. These decisions will be made in consultation with the council through our ongoing dialogue with senior officers. Individual pieces of work will move

between the three categories, as required, based on their priority at the time of assessment.

- 20 For example, an audit scheduled for quarter two to minimise the impact on a service area may initially be classed as to 'do later' but will become 'do now' as we move into quarter two. Similarly, an audit of a Council project classed as 'do now' because it represents an area of high importance may move from 'do now' to 'do next' or 'do later' if the project slips or planned work cannot be undertaken until a specific point is reached. Towards the end of the year, audits classed as 'do later' are likely to be deferred until the following year.
- 21 The committee will be provided with information on current internal audit priorities throughout the year as part of regular progress reporting.

2024/25 Internal audit work



The 2024/25 indicative internal audit work programme

- 22 The work programme for 2024/25 is set out in annex A, beginning on page 9.
- 23 Functionally, the indicative programme is structured into a number of areas, as set out in table 2, below.

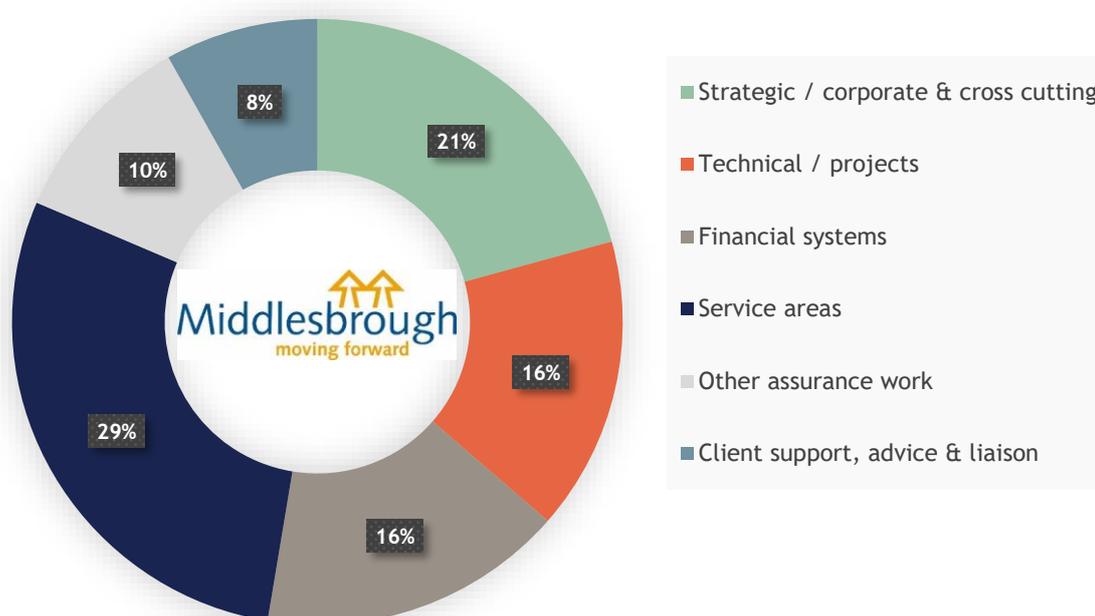
Table 2: Work programme functional areas.

| Programme area | Purpose |
|---|--|
| ▲ Strategic / corporate & cross cutting | To provide assurance on areas which, by virtue of their importance to good governance and stewardship, are fundamental to the ongoing success of the council. |
| ▲ Technical / projects | To provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services. |
| ▲ Financial systems | To provide assurance on the key areas of financial risk. This helps provide assurance to the council that risks of loss or error are minimised. |
| ▲ Service areas | To provide assurance on key systems and processes within individual service areas. These areas face risks which are individually significant but which could also have the potential to impact more widely on the operations or reputation of the council if they were to materialise. |
| ▲ Other assurance work | An allocation of time to allow for continuous audit planning and information gathering, unexpected work, and the follow up of work we have already carried out, |

| | |
|---|--|
| | ensuring that agreed actions have been implemented by management. |
| ▲ Client support, advice & liaison | Work we carry out to support the council in its functions. This includes the time spent providing support and advice, and liaising with staff. |

- 24 The overall level of service is based on an indicative number of days, for planning purposes (555 for 2024/25). Figure 4 below shows the proportion of time we expect to deliver across each area during the year.

Figure 3: 2024/25 work programme: indicative functional area split.



- 25 It is important to emphasise two important aspects of the programme. Firstly, the audit activities included in annex A are not fixed. As described above, work will be kept under review to ensure that audit resources are deployed to areas of greatest risk and importance to the council. This is to ensure the audit process continues to add value.
- 26 Secondly, it will not be possible to deliver all of the audit activities listed in the programme. The programme has been intentionally over-planned, to build in flexibility from the outset while also providing an indication of the priorities for work at the time of assessment. Over-planning the programme enables us to respond quickly by commencing work in other areas of importance to the council when risks and priorities change during the year.

Annex A: indicative internal audit work programme 2024/25

| Programme area | Potential internal audit activity |
|--|---|
| Strategic / corporate & cross cutting | <ul style="list-style-type: none"> ▲ Savings plans and delivery ▲ Financial resilience ▲ Key partnerships (including the Middlesbrough Development Corporation) ▲ Business continuity ▲ Members allowances and declarations of interest ▲ Risk management ▲ Recruitment and retention ▲ Governance (including decision making) ▲ Information security ▲ Performance management ▲ Succession planning ▲ Corporate complaints ▲ Health and safety ▲ Grant claims (including TVCA grants), trust funds and other related work ▲ Procurement (including implementation of the new Procurement Act) ▲ Asset management (including asset maintenance) |
| Technical / projects | <ul style="list-style-type: none"> ▲ Transformation programme ▲ IT – server administration and security ▲ IT – email security ▲ IT – malware protection |

| Programme area | Potential internal audit activity |
|--------------------------|--|
| Financial systems | <ul style="list-style-type: none"> ▲ Income collection ▲ Main accounting ▲ Debtors ▲ Council Tax and NNDR ▲ Creditors ▲ Benefits and Council Tax Support ▲ Teesside Pension Fund (Administration and Investments) |
| Service areas | <ul style="list-style-type: none"> ▲ Domestic abuse ▲ Adult's commissioning and contract management ▲ S117 after care (mental health services) ▲ Social care financial assessments ▲ Foster carers ▲ Schools themed audits ▲ Home to school transport ▲ Supporting Families grant claims ▲ Anti-social behaviour management ▲ Middlesbrough Community Learning Service (sub-contracting) ▲ Homelessness ▲ Reablement ▲ Adult Social Care legislative changes (including Liberty Protection Safeguards) ▲ Special Educational Needs ▲ Inclusion strategy |

| Programme area | Potential internal audit activity |
|---|---|
| | <ul style="list-style-type: none"> ▲ Climate change (including energy management) ▲ Housing development ▲ Planning |
| Other assurance work | <ul style="list-style-type: none"> ▲ Follow-up of previously agreed management actions ▲ Continuous audit planning and additional assurance gathering to help support our opinion on the framework of risk management, governance and internal control (including attendance at Directorate Management Teams) ▲ Continuous assurance work, including data analytics and data matching projects ▲ Attendance at, and contribution to, governance- and assurance-related working groups (including Risk Management Group) |
| Client support, advice & liaison | <ul style="list-style-type: none"> ▲ Committee preparation and attendance ▲ Key stakeholder liaison ▲ Support and advice on control, governance and risk related issues |

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Counter Fraud Work Programme 2024/25

Counter Fraud Work Programme



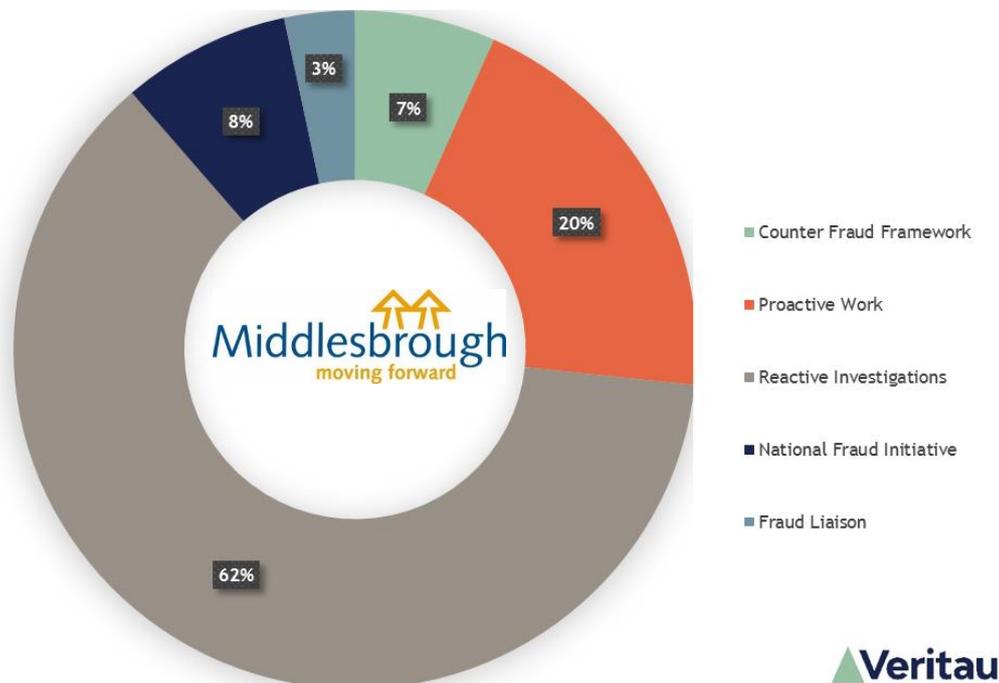
- 1 Veritau undertakes counter fraud work on behalf of Middlesbrough Council. This document summarises expected counter fraud activity for 2024/25.
- 2 A large part of the work of the team involves undertaking reactive investigations. The level of investigations is driven by referrals received from officers and the public about suspected fraud. Other work will be undertaken in accordance with priorities determined by the Counter Fraud Risk Assessment and Counter Fraud Strategy Action Plan (last presented to the committee 5 October 2023). A high-level summary of areas of counter fraud work are shown in table 1 below.

Table 1: Counter fraud work programme

| Programme area | Purpose |
|-----------------------------|--|
| ▲ Counter Fraud Framework | Monitoring changes to regulations and guidance, reviewing counter fraud risks, and support to the council with maintenance of the counter fraud framework. Updates on significant fraud trends and counter fraud activities will be provided to the Audit Committee during the year. |
| ▲ Proactive Work | This includes: <ul style="list-style-type: none"> • raising awareness of counter fraud issues and procedures for reporting suspected fraud - for example through training and provision of updates on fraud related issues • targeted proactive counter fraud work - for example through local and regional data matching exercises • support and advice on cases which may be appropriate for investigation and advice on appropriate measures to deter and prevent fraud. |
| ▲ Reactive Investigations | Investigation of suspected fraud affecting the council. This includes feedback on any changes needed to procedures to prevent fraud reoccurring. |
| ▲ National Fraud Initiative | Coordinating submission of data to the Public Sector Fraud Authority for the National Fraud Initiative (NFI) data matching programme and investigation of subsequent matches. |
| ▲ Fraud Liaison | Acting as a single point of contact for the Department for Work and Pensions, to provide data to support benefit investigations. |

- 3 The overall level of service is based on an indicative number of days for planning purposes (150 for 2024/25). Figure 1 below shows the proportion of time we expect to deliver across each area during the year.

Figure 1: Indicative split of counter fraud work



- 4 The split of activities shown in the figure above are not fixed. Actual work will depend on the level of suspected fraud referred to the team. We will also keep priorities for proactive and other counter fraud work under review, to ensure counter fraud resources continue to be used in the areas of greatest value to the council.

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Audit Committee Work Programme 24/25

| Committee date | Report title / subject | Lead / author |
|----------------|--|------------------------|
| 25 July 2024 | This audit programme | A Johnstone |
| | Veritau internal audit and counter fraud work programme 2024/25 | P Jeffrey |
| | Risk annual assurance report | A Johnstone |
| | Health and Safety Annual Assurance report | A Johnstone |
| | SIRO annual report | A Johnstone |
| | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |
| | Council VfM 2021/22 and 2022/23 | M Rutter |
| | Audit Strategy Memorandum for the Council | Cath Andrew (Mazars) |
| | Audit Strategy Memorandum for Teesside Pension Fund | Cath Andrew (Mazars) |
| 22 August 2024 | Complaints annual assurance report 2023/4 | A Johnstone |
| | 2023/4 Statement of accounts including AGS | J Weston / A Johnstone |
| | Verbal status update on Reset of Local Government Audits | M Rutter |
| | Progress report – Mazars | Cath Andrew (Mazars) |
| | Head of Internal Audit annual report | P Jeffrey |
| | Draft Statement of Accounts including Annual Governance Statement 2023/24 | J Weston / A Johnstone |
| | HOLDING – possible update on BV notice status | A Johnstone |
| | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |
| 3 October 2024 | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |
| | Internal Audit and Counter Fraud progress reports | P Jeffrey |
| | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |

| | | |
|------------------|--|-----------------------------|
| | Annual assurance report on Partnership Governance | A Johnstone |
| | Annual assurance report on procurement | L Grabham |
| | Internal Audit and Counter Fraud progress reports | P Jeffrey |
| | Counter Fraud Framework and refresh of the Counter Fraud Strategy | J Dodsworth (Veritau) |
| | Progress report – Mazars | Cath Andrew (Mazars) |
| | Pension Fund Audit Results Reports for both the 2021/22 and 2022/23 audits | Richard Tebbs (EY) |
| | POSSIBLE – timing dependent upon the reset - Audit Results Reports for both the 2021/22 and 2022/23 audits | M Rutter |
| November | Possible additional meeting if required to manage the workload of the committee | TBC |
| 12 December 2024 | Progress report – Mazars | Cath Andrew (Mazars) |
| | Audit completion report - Mazars | Cath Andrew (Mazars) |
| 6 February 2025 | Annual assurance report on decision making | B Carr / A Wilson |
| | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |
| | Annual assurance report on business continuity | A Johnstone |
| | Local Code of Corporate Governance | A Johnstone |
| | Annual assurance report HR | N Finnegan |
| | Internal Audit consultation report (for the 24/25 work programme) | P Jeffrey |
| | Internal Audit and Counter Fraud progress reports | P Jeffrey |
| | Progress report – Mazars | Cath Andrew (Mazars) |
| 13 March 2025 | Progress against the Corporate Governance improvement plan and the Section 24 report | A Johnstone |
| | Performance Management and PPMF assurance report | G Cooper |
| | HR Annual Assurance report | N Finnegan |
| | Veritau internal audit and counter fraud work programme 2025/26 | P Jeffrey |
| | Self assessment of the effectiveness of the Audit Committee | A Johnstone / Justin Weston |
| | Progress report – Mazars | Cath Andrew (Mazars) |

Items to note

Change the standard wording on assurance reports to ask the committee if the information is sufficient to give them assurance that appropriate governance arrangements are in place

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