

## AUDIT COMMITTEE

<b>Date:</b> Thursday, 12 December 2024
<b>Time:</b> 1.30 p.m.
<b>Venue:</b> Mandela Room, Town Hall

## AGENDA

1. Welcome and Evacuation Procedure
2. Apologies for Absence
3. Declarations of Interest
4. Forvis Mazars Auditors Annual Report 2023/24 3 - 54
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6. Direct Payments Audit Report 61 - 80
7. Treasury Management Mid-Year Review 2024/5 81 - 94
8. Internal Audit Consultation Report 2025/26 95 - 110
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10. Work Programme (Standard Item) 141 - 144
11. 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, 4 December 2024

## MEMBERSHIP

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

**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](mailto:chris_lunn@middlesbrough.gov.uk)**

**MIDDLESBROUGH COUNCIL**

<b>Report of:</b>	Director of Finance (S151 Officer)
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	12 December 2024
<b>Title:</b>	Annual Auditor's Report – 2023/24
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value

#### **Executive summary**

The External Auditor, Forvis Mazars, 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 2023 to 31 March 2024. The annual audit report gives their main findings on the work undertaken to date.

Members will appreciate that the previous external auditor, Ernst & Young LLP (EY) issued statutory s24 recommendations for 2022/22 and 2022/23 financial years in relation to the Council's Value for Money arrangements in August 2023. These were reported to Council in September 2023 and addressed through a Corporate Governance and Improvement Plan (CGIP) and s24 Action Plan. Progress against these plans has been regularly reported to Council and Audit Committee.

Due to the change in the appointed external auditor with effect from 1 April 2023, EY did not undertake a follow up audit of the Council's response to its s24 recommendations and therefore there will be no specific report made to close down those recommendations by EY. The Forvis Mazars report for 2023/24 therefore supersedes the 2021/22 and 2022/23 report produced by EY in relation to the assessment of the Council's VFM arrangements.

The Forvis Mazars audit work has assessed the Council's arrangements in place during 2023/24 and where appropriate considers the progress made up to the date of issuing this report. Forvis Mazars has audited the Council's VFM arrangements and has identified weaknesses (qualifications) in relation to all three elements of the audit assessment: financial sustainability, governance and improving economy, efficiency, and

effectiveness. Recommendations are made to the Council in respect of these weaknesses. However, no statutory s24 recommendations have been issued as part of this report which is contained at Appendix 1.

Given the significance of this report, it will also be reported to the next Council meeting on 15 January 2025.

A management response to the recommendations is included at Appendix 2 which sets out the progress made during 2023/24 and to date in delivering improvement in the VFM arrangements.

The report also covers other matters that the external auditor feels appropriate to report to the Committee as part of their work related to the financial year, 2023/24. This covers the opinion on the financial statements. For the Council, this is expected to be disclaimed, in line with the accounts for 2021/22 and 2022/23. For the Teesside Pension Fund, work is progressing as expected and this is expected to be complete by the statutory backstop date of 28 February 2025. The report also gives information around significant risks, the control environment, and audit fees for the financial year.

## 1. Purpose

- 1.1 The purpose of the report is for Forvis Mazars, the Council's External Auditor, to present their Value for Money opinion for the 2023/24 financial year. 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 The report also covers some other findings that the Auditor wants to raise with the Committee based on their audit work on the financial year. In particular, the expectation on the audit of the financial statements is important, plus their assessment of the control environment in place, and their level of audit fees for the year concerned.

## 2. Recommendations

### 2.1 That the Audit Committee

- Note the contents of the Annual Auditor's report in Appendix 1.
- Note the weaknesses in the value for money arrangements of the Council and the auditor's recommendations for improvement.
- Note the management response to the recommendations set out in Appendix 2.
- Note the expected position of a disclaimed position on the audit of the Council financial statements for 2023/24 by the backstop date of 28 February 2025.
- Note that the auditor is currently working on the audit of the 2023/24 Teesside pension fund accounts with a view to issuing an opinion by the backstop date of 28 February 2025.
- 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.
- Note that the auditors report will be reported to the next Council meeting on 15 January 2025.

## 3. Background and relevant information

3.1 Forvis Mazars Value for Money annual auditor's report for the 2023/24 financial year is attached at Appendix 1 and includes the following sections:

- Audit of the financial statements.
- Value for Money commentary.
- Other reporting responsibilities
- Audit fees for the 2023/24 financial year.
- Audit of the Pension Fund.

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

3.3 In terms of the audit of the financial statements for 2023/24 for the Council, this is likely to be disclaimed. This is in the light of the disclaimed audit opinions by EY for 2021/22 and 2022/23, which create a deficit on assurance on the opening balances for the financial year. Work is ongoing in respect of this set of accounts but there will not be

enough capacity or time before the backstop date of 28 February 2025. It is expected that this will be reset over the next couple of years.

3.4 To summarise, the main areas identified for improvement by the Council in respect of the value for money arrangements as follows:

- Financial Sustainability.
- Governance.
- Improving economy and efficiency and effectiveness.

3.5 The auditor’s findings in these areas are set out in Appendix 1 and the main highlights from this will be presented by the external auditors at the meeting. Clearly, time has moved on since the end of March 2024 and the Council’s response has been ongoing to address these shortcomings and this has been visible in terms of reporting to both full Council and Executive, as part of the governance and improvement plan. Most of these actions are already well progressed/complete and the management response to these recommendations are set out at Appendix 2. The Council is well set to address these weaknesses.

3.6 An important point for Members to note is that Forvis Mazars are not recommending that the Council has statutory S24 actions in place, as was the position with EY. This is a recognition that the arrangements for value for money at the Council have improved during the 12-month period in question and that the direction of travel on these issues is improving. Although, the financial sustainability and governance issues are recognised, these are now in a much more robust and stable position.

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

- Other general issues to report to the Committee.
- The level of fees for the year concerned, which are in line with those expected.
- The position on the audit of the pension fund, which continues to progress in line with expectations.

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

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. As such, no other options are available.

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

Topic	Impact
Financial (including procurement and Social Value)	All relevant financial implications are contained within the report being presented by the external auditor to the Committee, or in the above commentary.
Legal	The certification and publication of the Statement of Accounts (covering the financial statements and the

	<p>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.</p>
Risk	<p>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.</p> <p>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.</p> <p>The assessment by Forvis Mazars 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.</p>
Human Rights, Public Sector Equality Duty and Community Cohesion	<p>There are no direct implications in this area as a result of this report.</p>
Climate Change / Environmental	<p>There are no direct implications in this area as a result of this report.</p>
Children and Young People Cared for by the Authority and Care Leavers	<p>There are no direct implications in this area as a result of this report.</p>
Data Protection	<p>There are no direct implications in this area as a result of this report.</p>

## Appendices

1	Forvis Mazars – Annual Auditors Report – 2023/24 financial year
2	Middlesbrough Council – Management response to value for money actions

## Background papers

Body	Report title	Date
Corporate Affairs and Audit Committee	External Audit – Value for Money governance update	5 December 2022
Council	S24 Report – Statutory recommendations from the External Auditor, EY	18 September 2023
Audit Committee	Middlesbrough Council – Value for Money report – 2021/22 and 2022/23	25 July 2024
Audit Committee	Middlesbrough Council Audit Completion report 2021/22 and 2022/23	5 December 2024

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Draft Auditor's Annual Report  
Middlesbrough Council – year-ended 31 March 2024

December 2024

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- Appendix B: Further information on our audit of the Pension Fund’s financial statements

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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party. Forvis Mazars LLP – 5<sup>th</sup> Floor, 3 Wellington Place, Leeds, LS1 4AP Tel: 0113 394 2000 – [www.forvismazars.com/uk](http://www.forvismazars.com/uk) Forvis Mazars LLP is the UK firm of Forvis Mazars Global, a leading global professional services network. Forvis 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. 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](http://www.auditregister.org.uk) under reference number C001139861. VAT number: GB 839 8356 73



# 01

Introduction

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# Introduction

## Purpose of the draft Auditor's Annual Report

Our draft Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Middlesbrough Council ('the Council') for the year-ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

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### Opinion on the financial statements

We have not yet issued our audit report. We expect our opinion on the financial statements to be disclaimed in February 2025.



### Value for money arrangements

We are not satisfied arrangements were in place for the Council to secure economy, efficiency and effectiveness in its use of resources in 2023/24. We identified significant weaknesses in arrangements and Section 3 provides our commentary and a summary of our recommendations.



### Wider reporting responsibilities

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We plan to report to NAO when we have issued our audit opinion. As in previous years, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

We have not exercised any of our other additional powers and duties and have not issued a report in the public interest, written a recommendation, applied for a court declaration, issued an advisory notice, issued an application for judicial review or received any objections.

# 02

## Audit of the financial statements

# Audit of the financial statements

## Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council’s financial position as at 31 March 2024 and of its financial performance for the year then ended. We expect to issue our audit report in February 2025 for the year-ended 31 March 2024.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Reporting responsibility	Outcome
Narrative Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Council.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by CIPFA/LASAAC Code of Practice on Local Authority Accounting.

# 03

Our work on value for money  
arrangements

# VFM arrangements

## Overall Summary





# VFM arrangements – Overall summary

## Our approach

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:



**Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services;



**Governance** - How the Council ensures that it makes informed decisions and properly manages its risks; and



**Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

### Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work, we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may 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.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

### Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks in the following sections.

### Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.




We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. Two distinct types of recommendation are relevant to our duties under the Code:

- **Recommendations arising from significant weaknesses in arrangements** - we make these recommendations for improvement where we have identified a significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations** - we make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant, but which still require action to be taken.

The table on the following page summarises the outcome of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements, or made other recommendations.

# VFM arrangements – Overall summary

## Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 <b>Financial sustainability</b>	11	Yes – see risk 1 on page 12	Yes – see recommendation 1 on page 24	No
 <b>Governance</b>	15	Yes – see risk 2 on page 16	Yes – see recommendation 2 on page 25	No
 <b>Improving economy, efficiency and effectiveness</b>	19	Yes – see risk 3 on page 20	Yes – see recommendation 3 on page 25	No

# VFM arrangements

## Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



# VFM arrangements – Financial Sustainability

## Risks of significant weaknesses in arrangements in relation to Financial Sustainability

We have outlined below the risk of significant weakness in arrangements that we identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Financial sustainability</b></p> <p>As part of the 2024/25 budget setting and Medium Term Financial Plan update the Council made a request for and received in principle exceptional financial support from the Government as the Council reported it would not be able to 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>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• Budget setting reports, including the application for exceptional financial support.</li> <li>• Budget monitoring reports.</li> <li>• Outturn reports.</li> <li>• Updated medium term financial plans (MTFPs).</li> <li>• Transformation programme.</li> <li>• Links between MTFPs and other plans, e.g., people strategy.</li> </ul> <p><b>Conclusion</b></p> <p>The Council has made significant improvement in addressing issues that presented during 2023/24, for example introducing a new budget setting approach and transformation programme, but there is still work to be done to improve arrangements for financial sustainability. The precarious financial position and the transformation required to ensure affordable services are provided are causes of concern.</p>

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## Overall commentary on Financial Sustainability

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

Our review of minutes and supporting papers has confirmed medium-term financial planning arrangements have been in place in 2023/24. In our assessment, we considered the Medium Term Financial Plans (MTFPs), covering 2023/24 to 2025/26, and the new approach for 2024/25 to 2026/27. We have also reviewed the proposed 2025/26 budget and MTFP approach and timetable.

We have considered the Council's performance in delivering its MTFP, including any identified saving targets. In 2023/24, in common with other local authorities, the Council experienced significant cost pressures linked in

delivering demand-led services and as a consequence of inflation. In 2024/25 the Council continues to report significant financial pressures, including significant demand pressures and service cost increases. As part of the 2024/25 budget setting and overhaul of the MTFP arrangement, the Council made a request for and received in principle approval for exceptional financial support from the Government as the Council could not meet its spending commitments from its income. Despite this, the quarter one forecast revenue outturn for 2024/25 was a further overspend of £3.7 million unless further management intervention is taken in order to control costs. Planned savings in adult and children's social care services are at risk of not being delivered in full by the year-end (£2.1 million). In addition, higher numbers and the increasing complexity of external residential placements for children has added pressure of £2.4 million.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

The exceptional financial support arrangement means borrowing of up to £3.5 million could be used to meet any overspend arising from unachieved savings in-year, but the remainder (the element of the forecast overspend not linked to savings delivery of £1.2 million) would need to be funded from reserves which would reduce General Fund reserves below the level recommended by the CFO.

The most recent internal monitoring of the in-year 2024/25 forecast position indicates an improved, lower overall overspend but with continued pressures in children's services.

**The failure to identify all significant financial pressures is evidence of a significant weakness in arrangements.**

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

Our review of the MTFPs issued during 2023/24 and to date provides assurance that forecasts are based on prudent assumptions including the Council's latest understanding of Government funding arrangements, local revenue assumptions, service demand and other cost pressures. Arrangements for identifying and delivering savings include a timetable for consultation with stakeholders ahead of approval before each financial year. The new MTFP arrangements include a more disciplined approach to budget setting and require in-year spending to be funded from in-year resources to protect reserves which are at a critical level. Budget monitoring reports explain that failure to control expenditure will lead to draw down of the exceptional financial support or a call on reserves. Such an approach is not sustainable, which the Council recognises, and the transformation programme is designed to address this. The Council's access to exceptional financial support allows some flexibility in the short-term but there is an ongoing need to deal with a structural deficit. The new senior management team aims to address this in the development of the 2025/26 budget and MTFP and via the transformation programme.

**The lack of a sustainable MTFP is evidence of a significant weakness in arrangements.**

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

In 2024/25 the Council's MTFP strategy was aligned with the Council plan which sets out the Council's strategic direction and ambitions for the area. Our review confirmed that the MTFP arrangement is now based on reasonable assumptions available at the time of approving the plan. The scale of the financial recovery required is significant and involves savings of £13.9 million in 2024/25 rising to £21 million over the period to

2026/27. In-year monitoring reports, however, suggest the planned savings are not currently being delivered; the quarter one position reported in September 2024 highlights a further overspend against budget and increasing pressures. More recent internal monitoring of the in-year 2024/25 forecast position indicates an improved, lower overall overspend (£3.6 million).

Financial control measures were agreed and implemented in July 2023. These measures include: modernising and transforming service delivery; risk rating of savings and detailed monitoring of savings achievement; development of a pipeline of new transformation projects; more robust budgetary control; more director engagement; and more stringent financial control of budgets and restraint on non-essential spending. These measures reduced a reported quarter one £11 million overspend to a £3.6 million outturn in 2023/24.

The MTFP is regularly reviewed, including the main assumptions, and regularly reported including where changes in assumptions impact on the forecast financial position. There is regular budget monitoring including forecast of outturn reports which support the identification of in-year pressures, whether savings are being achieved and if resources need to be redirected to areas in need. We reviewed the 2023/24 outturn and noted the in-year pressures, such as those in the Children's services, were clearly reported and have been reflected in the MTFP. Financial planning arrangements, however, involve an unsustainable reliance on exceptional financial support from the Government.

**The lack of a sustainable MTFP is evidence of significant weaknesses in arrangements in 2023/24.**

### 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

At the highest level, the Council has a Council Plan and vision, there is a transformation programme in place and a new people strategy has been developed. This is part of the Council's strategic planning framework and the MTFP is part of this Framework. We confirmed that arrangements were in place for the development of the MTFP including linking the financial plan to the Council's corporate objectives to ensure the priorities of the Council are delivered, scrutinising the MTFP, and documenting key assumptions with each savings plan being risk assessed to advise Members of the impacts. We have confirmed a similar timetable exists for setting the 2025/26 budget which is evidenced in the reports to the May and September 2024 Executive meetings and includes the high-level forecast position for 2025/26 to 2028/29.

# VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria – continued

In line with the Prudential Code and the Council's capital strategy, the revenue implications of capital investment decisions are considered and form part of the MTFP planning and budget setting process. This is designed to ensure investments are fully funded. The capital plan is included in the MTFP including the capital strategy. A detailed capital plan is included in the MTFP.

### **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 MTFP process aims to reflect changes that affect the Council's financial plans. The budget is monitored on a regular basis at department level ahead of reporting to the Executive. We reviewed outturn reports presented during 2023/24 and 2024/25 to date and noted that they reflect in-year changes, for example, demand pressures in Children's Services which have been tracked and reported throughout the year. The 2023/24 outturn report has highlighted an overspend of £3.6 million, which is 2.8% of the approved budget totalling £126.4 million. The overspend led to the unplanned use of reserves. Improved financial monitoring and control arrangements applied during 2024/25 include internal challenge and recovery procedures..

Consistent with the prior year and other local authorities, Children's Services continue to report significant overspends in-year, reporting a £2.8 million overspend in 2023/24. As a result, unrestricted useable reserves have reduced from £3.5 million (31 March 2023) to £1.1 million (31 March 2024) prior to the allocation of the Collection Fund balance of £8.3 million (1 April 2024). The Council continues to closely monitor this service and develop mitigation plans to reduce overspends in the medium to long-term. In 2023/24 this included reviewing, controlling and rebasing the children's services budget and reviewing social care practice. This is alongside national efforts to address the exceptionally high cost of external residential care placements.

Our review of committee reports and attendance of Audit Committee, provides assurance that the Council monitors and identifies mitigations to manage any changes in demand and assumptions in the MTFP. The Council also has an established risk management framework, with regular reviews and reporting to Audit Committee. Attendance of Audit Committee meeting confirm it receives regular risk management updates.

As part of the 2024/25 budget setting and MTFP update the Council made a request for and received in principle approval for exceptional financial support from the Government as the Council could not meet its spending commitments from its income. The development and implementation the transformation programme during 2024/25 is required to stabilise the Council's finances.

**The lack of a sustainable MTFP during 2023/24 is evidence of a significant weakness in arrangements.**

### **Summary: overall commentary on the financial sustainability reporting criteria**

Our work identified significant weaknesses in financial sustainability arrangements, as set out in this section and summarised below:

- **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**
- **how the body plans to bridge its funding gaps and identifies achievable savings**
- **how the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities**
- **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 level of reserves is low and the Council's MTFP and transformation programme rely on the identification of further savings, the success of the new financial monitoring and control arrangements and the availability of exceptional financial support from the Government.

# VFM arrangements

## Governance

How the body ensures that it makes informed decisions and properly manages its risks



# VFM arrangements – Governance

## Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risk of significant weakness in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Governance</b> The Council's previous external auditor's reported significant weaknesses in the Council's governance arrangements in the period 2021 to 2023. The concerns reported included strained relationships between the Council's previous senior officers and elected Members, and between elected Members.</p> <p>The Council is implementing a Corporate Governance Improvement Plan to improve arrangements and monitoring reports in November 2024 record 86 out of 95 planned actions have been delivered. The Council also reports that 46 out of 47 actions in response to external audit recommendations have been delivered and the remaining action is on track to be delivered by March 2025. The Council now needs to apply its governance arrangements, and focus on transformation and financial recovery.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> <li>• Internal audit plan and reports.</li> <li>• Annual governance statement.</li> <li>• Section 24 recommendations action plan.</li> <li>• Corporate Governance Improvement Plan.</li> <li>• Response to unplanned changes and informed decision making.</li> <li>• Risk management arrangements.</li> <li>• Standards monitoring.</li> </ul> <p><b>Conclusion</b> The Council has made progress towards addressing previous value for money recommendations but there is still work to be done on governance arrangements.</p>

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## Overall commentary on Governance

### 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 Audit Committee provides assurance over the adequacy of the Council's risk management framework and associated control environment.

The Council has an externally provided internal audit service provided by Veritau. The Internal Audit Plan is reviewed by the Council's Audit Committee to determine the priorities of the internal audit activity, consistent with the Council's goals. The Plan is discussed with the Audit Committee and service leads ahead of being finalised.

The 2023/24 Plan was presented to the Corporate Affairs and Audit Committee in February 2023. We attend

meetings of the Committee and confirmed that progress against the plan was reported at each meeting. The annual Head of Internal Audit Opinion was presented to the August 2024 Audit Committee meeting and provided an overall 'reasonable' level of assurance which is better than the 2022/23 'limited assurance' position. Internal Audit reports have been presented to the Audit Committee at each of the meetings.

We confirmed through our attendance at Audit Committee that Members challenge management where recommendations are not implemented within the agreed timeframe. We observed Member scrutiny of matters raised in Internal Audit reviews.



# VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

Internal Audit's compliance with the Public Sector Internal Audit Standards was subject to external review. As detailed in the annual Head of Internal Audit report 2023/24, the review concluded that Veritau's internal audit activity generally conforms to the Public Sector Internal Audit Standards and, overall, the findings were very positive.

A Risk Management Policy and Strategy is in place and the annual risk management assurance report for 2023/24 was considered by the Audit Committee recently in July 2024. The overall opinion of the Head of Internal Audit on the risk management framework is that it provides 'reasonable assurance'. We have confirmed, via our attendance at the Audit Committee, there has been regular reporting against the Risk Management Strategy in the year.

Veritau also provide the Council with counter fraud services. A Counter Fraud and Corruption Strategy is in place and has been subject to review. Counter Fraud activity has been reported throughout the year to the Audit Committee alongside other internal audit reporting.

We considered the Council's Annual Governance Statement (AGS), including considering the requirement for the AGS to be kept up to date and cover issues up to when the opinion on the financial statements is given for each year. We note the Council has appropriately included an update in the AGS to highlight significant governance issues that presented during the previous administration.

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

The Council's financial planning arrangements include the identification and evaluation of risks to the Council's finances. We reviewed budget setting arrangements, and no matters were identified that would indicate a significant weakness in arrangements. Overall, the Council is aware of the financial pressure it faces. We confirmed that scenario plans are in place to identify the potential financial impact of risks.

The Chartered Institute of Public Finance and Accountancy (CIPFA) review of financial management arrangements in April 2024 scored the Council as two out of five stars, concluding that reasonable arrangements are in place. The review acknowledged the change and improvements that were already in progress within the Corporate Governance Improvement Plan and have now largely been implemented. CIPFA recommended the Council enhance its existing plan in selected areas. The report concluded that the successful implementation of the Recover, Reset, Delivery Transformation Portfolio is critical to evidencing the required culture change and to securing improvement and maturity in financial management arrangements.

### How the Council 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

We reviewed Council minutes and confirmed there was regular reporting of the financial position during 2023/24. This included details of movements in the budget and forecast outturn between quarters. The reports detailed the in-year position as well as planned mitigations. We reviewed the 2023/24 outturn and confirmed in-year pressures, such as those in Children's services, were clearly reported and have been reflected in the MTFP. Financial controls introduced by new senior management in July 2023 helped to reduce the overspend in 2023/24. The controls are still in place and more progress has been made during 2024/5 to continue in-year budget challenge alongside the development of a financial recovery agenda. After developing significant savings plans for 2024/25 the Council exceptional financial support was requested as a £4.7 million budget gap remained for which realistic savings plans were not identified.

The financial statements timetable was not delivered in 2023/24. Draft accounts should have been published by the end of May 2024 but were published on 27 September 2024 which was earlier than the publication of the draft accounts for 2022/23. Delays in completing previous audits and the work needed to refine estimates have led us to conclude that the delay in producing the financial statements is not unequivocal evidence of a significant weakness in the Council's arrangements, but we make this recommendation:

- Annual financial reporting is a key accountability process and the Council should consider whether it has sufficient capacity and capability to deliver a reliable draft statement of accounts in line with the statutory timetable for 2024/25.

### How the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Council has a Constitution and Scheme of Delegation which set the framework for decisions. The Constitution has been reviewed and updated and training has been provided to Members and officers on the format and the decision-making processes to ensure good practice.

The Council uses a standard report format for its committees and has a supporting report author checklist.

We reviewed Council minutes in the year and have not identified evidence of a significant weakness in arrangements. The reports we reviewed support informed decision-making and were clear in the decision or recommendation Members were asked to make.

## Overall commentary on the Governance reporting criteria - continued

The 2023/24 AGS, sets out progress against the following improvement areas identified in the previous year:

- Best Value Notice: in place during 2023/24, refocused to include financial sustainability in January 2024. The Notice was lifted in September 2024, including on financial sustainability, noting that this remains a risk but recognising the progress made;
- statutory recommendations issued by external auditor: we note these are reported as substantially delivered in November 2024; and
- summary of the Council's culture and governance improvement actions taken in response to the above: we note these are recorded as substantially delivered in November 2024.

While significant progress has been made up to November 2024, we note there were still deficiencies during the 2023/24 financial year, for example, the Constitution was updated and approved in September 2023 as part of a fundamental reset, and the Member development strategy and programme had not been fully delivered.

**The lack of an up-to-date Constitution and Member development arrangements are evidence of a significant weakness in arrangements in 2023/24.**

### How the Council monitors and ensures appropriate standards are maintained

The Council's Constitution is reviewed at least annually and sets out how the Council operates, how decisions are made and the rules and procedures which are followed to ensure that these are efficient and transparent to local people. Supporting the Constitution are codes of conduct for Members and officers. Registers of gifts and hospitality and registers of interest are maintained for Members and officers and are available on the Council website. The Statement of Accounts records material related party transactions as well as senior officer pay and Members' allowances.

We confirmed that contract procedure rules are in place and require procurement decisions to comply with appropriate standards. Contract registers are available on the Council website.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by members. It is responsible for advising and arranging relevant training relating to the requirements of the

Code of Conduct. The most recent quarterly report taken to Committee in July 2024 shows 59 complaints in 2023. Of those complaints 9 were withdrawn or discontinued, 30 were advised to be rejected based on the assessment criteria, 14 were resolved informally by way of advice and guidance and 6 are being investigated.

### Summary: overall commentary on the governance reporting criteria

**Our work identified significant weaknesses in governance arrangements, as set out in this section, and summarised below:**

- **how the Council ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency;**
- **how the Council 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.**

Weaknesses identified in respect of:

- how the Council delivered its Best Value responsibilities in 2023/24;
- actions in the Corporate Governance Improvement Plan that were in progress during 2023/24; and
- the Council's 2023/24 arrangements for take corrective action to deliver a sustainable MTFP.

# VFM arrangements

## Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Risks of significant weaknesses in arrangements in relation to Improving Economy, Efficiency and Effectiveness

We have outlined below the risk of significant weakness in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to that risk.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p><b>Improving economy, efficiency and effectiveness</b> Significant weaknesses in the Council’s arrangements for evaluating the services it provides and for commissioning and procuring services were reported in previous years.</p> <p>In response, the Council’s action plans and development workstreams include a range of measures to address the deficiencies reported. 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 reviewed:</p> <ul style="list-style-type: none"> <li>• Updated Council plan and performance monitoring.</li> <li>• Transformation programme.</li> <li>• Partnership working.</li> <li>• Procurement arrangements and response to section 24 recommendations.</li> <li>• Relevant internal audit reports.</li> </ul> <p><b>Conclusion</b> The Council has made progress in addressing previous value for money recommendations but there is still work to be done to improve arrangements in relation to improving economy, efficiency and effectiveness.</p>

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## Overall commentary on Improving Economy, Efficiency and Effectiveness

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

The Council has a performance management framework and assessment arrangements use a series of indicators. Corporate performance against key performance indicators is presented to Executive on a quarterly basis.

The transformation programme includes a theme focused upon the review and redesign of the Council’s Target Operating Model given the need to downsize and streamline management structures. This includes work supported by the Local Government Association (LGA) to review the Council’s management structures using a decision-making accountability (DMA) methodology.

The Council’s financial performance is reported on a regular basis to Executive with details of the financial position along with rationale for any changes and factors to be taken into account. Reports include HR

implications and equality impact assessments.

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

The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2023/24 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. Our work, however, identified no evidence of a clear link between the Council Plan priorities in 2023/24, the strategic workplan and the detailed outcomes and measures reported. Management has sought address this weakness in the development of the 2024 to 2027 Plan.

**The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements in 2023/24.**

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

We note that a new Council Plan 2024-27 has now been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Initiatives and workplans to support delivery of the ambitions and measures of success, and the proposed performance and governance arrangements, were approved during a meeting of the Executive on 10 April 2024. There has, therefore, been clear progress after 2023/24 which demonstrates a more robust approach to the delivery of key priority activities across Council services.

2024/25 has also seen the implementation of new waste collection arrangements which, despite being successful attracted some adverse responses from Members. Delivering the Best Value duty and applying the principles of continuous improvement are usefully seen as a process during which even the most capable and best practice authorities can experience errors or shortcomings. Unless these are regular and material, such authorities usually treat such occurrences as learning experience rather than opportunities for deflection or pin-pointing blame. The Council's improvement initiatives may involve isolated examples where delivery and implementation is not perfect, but Member engagement will be key to generating momentum and maintaining a positive sense of direction.

The Best Value Notice, which had been in place since January 2023 was updated in January 2024 to include financial sustainability and was formally removed in September 2024. The Council monitors actions against the Corporate Governance Improvement Plan and external audit recommendations and has identified areas of performance that require improvement. Actions to date have not yet resulted in the expected transformation and there is evidence of performance below targets, for example, the senior management review and implementation and completion of leadership management team appointments are due for completion in 2025. Performance against executive actions and Council Plan outcomes reported in September 2024 are below the expected standards. As some of the improvements needed require culture change, it is understandable that the impact on service delivery and transformation is not immediately measurable.

### **How the Council 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 ensures it is represented at a senior level in its key partnerships, such as partnerships with health. The Council has, for example, a well-established partnership with Health via the Better Care Fund.

A partnership annual report was taken to Audit Committee 14 December 2023 which included a self-assessment for each of the 13 significant partnerships that existed during 2022/23. While partnerships were

assessed as being generally in a sound state by the lead officers who self-assessed compliance with governance standards, some marked performance as "amber" where outcomes were less able to be articulated or because performance was below target/below national average. The position in relation to each of the partnerships identified as "amber" for performance together with actions planned to address that status were set out in the submitted report.

Examples of new partnerships include:

- Executive 20 December 2023, Shift Partnership Proposal, the report sought approval of a new three-year partnership with SHiFT, a youth justice charity, that would create a new SHiFT Practice hosted by Children's Services within the Council. This is seen as a key transformation issue and delays in implementation affect the delivery of planned savings for 2024/25; and
- Executive 14 February 2024, levelling up partnership, the purpose of the report was to seek Executive approval for Middlesbrough Council to accept £20.816 million of Levelling Up Partnership (LUP) funding and agree, as the Accountable Body, to deliver and enable local partners to deliver the package of proposed projects.

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

Key commissioning and procurement decisions are taken by skilled and trained staff to ensure compliance with legislation, professional standards and internal policies. Access is readily available to professional legal and procurement advice.

There is evidence that the Council has arrangements in place for procurement and a new two-year corporate procurement strategy 2023-2025 taken to Executive 10 April 2024. As part of the updated strategy, an options appraisal has been developed concerning the most cost-effective delivery model for procurement across the Council. The strategy recognised the opportunity that procurement activity has in maximising added value and efficiencies with a focus on achieving value for money, alongside collaborating with internal and external partners. The aim is to offer an outstanding procurement experience for stakeholders and suppliers that is transparent, provides opportunities for local businesses, delivers the best value for Middlesbrough's residents, and supports achievement of the Council's strategic priorities.

# VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

**Summary: overall commentary on the improving economy, efficiency and effectiveness reporting criteria**

Our work identified a significant weakness in arrangements, as set out in this section and summarised below:

- **how financial and performance information has been used to assess performance to identify areas for improvement:**

The lack of embedded performance management arrangements is evidence of a significant weakness in arrangements in 2023/24.

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# VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendations for improvement	Our views on the actions taken to date
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 32</p> <p>1 <b>Financial sustainability</b> As part of the 2024/25 budget setting, the Council made a request for, and received, exceptional financial support from the Government as the Council could not meet its spending commitments from available resources.</p>	<p style="text-align: center;">●</p>			<p>1 The Council should continue to strengthen the approach to budget setting to ensure assumptions are data driven and realistic, and planned savings are subject to a detailed delivery plans and risk assessment.</p> <p>2 The Council needs to implement a financial recovery plan to ensure services can be provided within available resources and should:</p> <ul style="list-style-type: none"> <li>• complete a baseline assessment of the affordability of services in their current form;</li> <li>• develop a detailed plan to address the deficit including further savings for 2025/26;</li> <li>• ensure sufficient information is provided to Members so they can monitor the delivery of planned savings.</li> </ul> <p>3 The Council should continue to apply the additional spending controls agreed in July 2023 to address the forecast in-year deficit.</p>	<p>The Council updated the MFTP as part of the budget setting process for 2024/25 and launched a transformation programme in April 2024 to deliver financial recovery.</p> <p>A further overspend is forecast for 2024/25.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure financial sustainability.</p>



# VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement (continued)

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
2 Page 33	<p><b>Governance</b> During 2023/24 the Constitution was being reviewed, revisited and embedded and the Member development strategy and programme had not been delivered. Arrangements were improved during 2023/24 but were not in effect during the year.</p>		●		<p>The Council should apply and embed arrangements in line with the culture and governance improvement plan.</p>	<p>The Council has an agreed culture and governance improvement plan and has monitored progress in implementing the required actions.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure governance arrangements are in place and embedded.</p>
3	<p><b>Improving Economy, Efficiency and Effectiveness</b> The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2023/24 the quarterly reports tracked performance against the priority actions in the Council Plan and included a commentary on progress. We did not see evidence of a clear link between the Council Plan priorities, the strategic workplan and the detailed outcomes and measures reported.</p>			●	<p>The Council should ensure</p> <ul style="list-style-type: none"> <li>the Mayor's priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals; and</li> <li>sufficient information is provided to Members so they can monitor service delivery.</li> </ul>	<p>A new Council Plan 2024-27 has been developed which articulates the Mayor's four priorities and outlines the approach that will be taken to address those priorities. Supporting initiatives and workplans to support delivery of the Council Plan 2024-27 ambitions and measures of success and the proposed performance and governance arrangements were approved at a meeting of the Executive on 10 April 2024 for implementation in 2024/25.</p> <p>The Council has made progress in improving arrangements but there is still work to do to ensure arrangements are fully embedded for improving economy, efficiency and effectiveness.</p>

## Other reporting responsibilities

# Other reporting responsibilities

## Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

## Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We plan to report to NAO when we have issued our audit opinion. As in previous years, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

# 05

Audit fees and other services

# Audit fees and other services

## Fees for our external audit work

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2024. We have not yet completed our work for the 2023/24 financial year, so are not yet able to confirm our final fees.

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£321,074	£111,857

06

# Audit of Teesside Pension Fund

# Audit of Teesside Pension Fund

## Summary of key information

As the auditor for Teesside Pension Fund ('the Pension Fund'), our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). This section of the AAR summarises how we have discharged these responsibilities and the findings from our work we have undertaken as the Pension Fund auditor for the year-ended 31 March 2024.



### Opinion on the Pension Fund financial statements

We have not yet issued our audit report. Our opinion on the financial statements is expected to be issued in February 2025.



### Risks, misstatements and internal control recommendations

A summary of the significant risks we identified when undertaking our audit of the financial statements is outlined in Appendix B. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

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### Consistency report

We have not yet concluded that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts Middlesbrough Borough Council. Our report is expected to be issued in February 2025.



### Wider responsibilities

We have not exercised any of these powers as part of our Teesside Pension Fund's 2023/24 audit to date.



### Significant difficulties during the audit

We have not experienced any significant difficulties during the audit to date.

## Fees for our work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in July 2024. We have not yet completed our work for the 2023/24 financial year, so are not yet able to confirm our final fees.

Area of work	2023/24 fees	2022/23 fees
Planned fee in respect of our work under the Code of Audit Practice	£102,380	£37,054

## Fees for other work

We confirm that we have not undertaken any non-audit services for the Pension Fund in the year.

# Appendices

Appendix A: Further information on our audit of the Council's financial statements

Appendix B: Further information on our audit of the Pension Fund financial statements



# Appendix A: Further information on our audit of the Council’s financial statements

## Significant risks and audit findings

As part of our audit of the Council, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our planned audit response
<p><b>Management override of controls</b>                      This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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>	<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.</p>
<p><b>Risk of fraud in revenue recognition</b>                      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"> <li>• testing significant grants and capital receipts recorded around year end to ensure they have been recognised in the appropriate year;</li> <li>• testing year end receivables; and</li> <li>• obtaining direct confirmations of year-end bank balances and testing the reconciliations to the ledger.</li> </ul>

# Appendix A: Further information on our audit of the Council’s financial statements

## Significant risks and audit findings (continued)

Risk	Our planned audit response
<p><b>Valuation of net defined benefit liability</b></p> <p>The 2023/24 financial statements are expected to contain material pension entries in respect of the retirement benefits.</p> <p>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"> <li>critically evaluate the Council’s arrangements relevant controls for making estimates in relation to pension entries within the financial statements; and</li> <li>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;</li> <li>critically assess the competency, objectivity and independence of the Actuary;</li> <li>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;</li> <li>compare assumptions to expected ranges, using information provided by the consulting actuary engaged by the National Audit Office; and</li> <li>agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.</li> </ul>
<p><b>Valuation of land, buildings and surplus assets</b></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"> <li>critically assess the Council’s arrangements for ensuring that land and buildings valuations are reasonable and not materially misstated;</li> <li>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;</li> <li>consider the competence, skills and experience of the valuers and the instructions issued to the valuers;</li> <li>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</li> <li>where necessary, perform further audit procedures on individual assets to ensure the basis of valuations is appropriate.</li> </ul>

# Appendix A: Further information on our audit of the Council’s financial statements

## Summary of uncorrected misstatements for the Council

We have not yet completed our audit work for the Council.

# Appendix A: Further information on our audit of the Council’s financial statements

## Internal control observations for the Council

We have not yet completed our audit work for the Council.

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# Appendix B: Further information on our audit of the Pension Fund’s financial statements

## Significant risks and audit findings

As part of our audit of the Pension Fund, we identified significant risks to our opinion on the financial statements during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our planned audit response
<p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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>	<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.</p>
<p><b>Valuation of investments within level 3 of the fair value hierarchy</b></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"> <li>• agree holdings from fund manager reports to the global custodian’s report;</li> <li>• 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;</li> <li>• agree the investment manager valuations to audited accounts or other independent supporting documentation, where available;</li> <li>• where audited accounts are available, check that they are supported by an unmodified opinion;</li> <li>• review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and</li> <li>• 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.</li> </ul>

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## Appendix B: Further information on our audit of the Pension Fund's financial statements

### Summary of uncorrected misstatements for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

# Appendix B: Further information on our audit of the Pension Fund’s financial statements

## Internal control observations for the Pension Fund

We have not yet completed our audit work for the Pension Fund.

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**MIDDLESBROUGH COUNCIL – MANAGEMENT RESPONSES TO 2023/24 VALUE FOR MONEY COMMENTARY**

Identified significant weakness in arrangements		Recommendation for improvement	Management Response
<p><b>Financial Sustainability</b> As part of the 2024/25 budget setting, the Council made a request for, and received, exceptional financial support from the Government as the Council could not meet its spending commitments from available resources.</p>	1	<p>The Council should continue to strengthen the approach to budget setting to ensure assumptions are data driven and realistic, and planned savings are subject to a detailed delivery plan and risk assessment.</p>	<p>Throughout 2024/25, the Finance Team has worked closely with Directors in relation to high spending service areas including adult social care, children's social care, SEND transport to develop more comprehensive and data driven demand and cost modelling. This work has informed in year budget management and forecasting and provided the opportunity to rebase budgets for the 2025/26 financial year, also informing modelling over the term of the MTFP to 2028/29.</p> <p>This approach will be adopted on an ongoing basis, to systematically review and rebase budgets in service areas experiencing financial pressure such as fleet services and the crematorium and in relation to services that have been subject to revised operating models during 2024/25 such as residual, recycling, and green waste collection.</p> <p>The development of proposals for savings is subject to a standard business case development approach which incorporates an assessment of cost, benefits, risks, interdependencies and resource and delivery plans to establish robust plans for delivery of service improvement and cost reduction. This process is subject to the Council's Programme and Project management framework operated by the Corporate Programme Management Office and overseen by the Corporate Transformation Board.</p>

Identified significant weakness in arrangements		Recommendation for improvement	Management Response
	2	<p>The Council needs to implement a financial recovery plan to ensure services can be provided within available resources and should:</p> <ul style="list-style-type: none"> <li>- Complete a baseline assessment of the affordability of services in their current form:</li> <li>- Develop a detailed plan to address the deficit including further savings for 2025/26.</li> <li>- Ensure sufficient information is provided to Members so they can monitor the delivery of planned savings</li> </ul>	<p>There is a standing requirement for each Director to develop a financial recovery plan where an overspend is forecast. Recovery plans are subject to review and assurance by the Finance Team and PMO and are tracked and monitored monthly through officer and member led budget challenge meetings and Programme Management Boards.</p> <p>The Quarter 2 position for 2024/25 forecasts an overspend of £1.382m, an improvement from £3.742 at Quarter 1, with further recovery plans in place to reduce the overspend by a further £0.5m by the year end.</p> <p>As set out in relation to recommendation 1, high spending areas are subject to budget review and rebasing. Further work is in development to undertake benchmarking of costs in those service areas and to explore alternative operating models for high-cost service areas.</p> <p>The draft budget proposed to Executive on 4 December 2024 is a balanced budget for 2025/26 and 2026/27, with a remaining budget gap of £2.686m, rising to £5.150m by 2028/29 having taken a broadly financially neutral assessment of the Provisional local government finance settlement due on 19 December. This position will be reassessed considering the detail of the settlement prior to February budget setting.</p> <p>The Executive and the Overview and Scrutiny Board receive quarterly revenue and capital monitoring reports which includes a savings delivery tracker. In addition, within the Transformation Programme Governance arrangements, a Transformation Assurance Board meets periodically and is chaired by the mayor and attended by members from across all political parties, in order to provide a more detailed insight into transformation and savings programme delivery.</p>

Identified significant weakness in arrangements		Recommendation for improvement	Management Response
	3	The Council should continue to apply the additional spending controls agreed in July 2023 to address the forecast in year deficit.	Spending controls have continued throughout 2024/25. Further plans to strengthen budgetary control during 2025/26 with refinement of financial regulations relating to budget virement and stronger management control of pay vs non pay budgets.

Identified significant weakness in arrangements		Recommendation for Improvement	Management Response
<p><b>Governance</b></p> <p>During 2023/24 the Constitution was being reviewed, revisited, and embedded and the Member development strategy and programme had not been delivered. Arrangements were improved during 2023/24 but were not in effect during the year.</p>	4	<p>The Council should apply and embed arrangements in line with the culture and governance improvement plan.</p>	<p>This statement relates mainly to the 2023/24 financial year. Since that time the Council has delivered many of the actions within its improvement plan, alongside work to embed cultural change over the medium term through ongoing delivery of key strategies around Member development and its People.</p> <p>Progress against the delivery of the plan and its impact to date has been reported regularly to both Audit Committee, full Council, and the Council's Independent Improvement Advisory Board.</p> <p>As delivery of that extensive improvement is ending, the Council has commissioned an independent assessment of its corporate governance position from the Local Government Association, in line with its commitment to continuous improvement.</p> <p>The findings of that review will be published, shared with Members, staff, and partners, and used to shape our next steps in relation to governance. We know that changing culture takes time and will be continuing to deliver improvement actions to do this within Business-As-usual policies, strategies, and processes such as Member Development Strategy, People Strategy etc.</p> <p>The Council has a robust Annual Governance Statement and supporting action plan in place to ensure it has these business-as-usual processes to continue to deliver governance improvement actions.</p> <p>It is also regularly reporting the ongoing delivery of its People Strategy to its leadership team.</p>

Identified significant weakness in arrangements		Recommendation for Improvement	Management Response
<p><b>Improving Economy, Efficiency and Effectiveness</b></p> <p>The Executive monitored performance during the year. Performance is measured against the Council Plan. In 2023/24 the quarterly reports tracked performance against priority actions in the Council Plan and included a commentary on progress. We did not see evidence of a clear link between the Council plan priorities, the strategic work plan and the detailed outcomes and measures reported.</p>	5	<p>The Council should ensure:</p> <ul style="list-style-type: none"> <li>• the mayor's priorities are clearly linked to the strategic workplan and feed down into detailed, measurable targets and staff performance appraisals; and</li> <li>• sufficient information is provided to Members so they can monitor service delivery.</li> </ul>	<p>As recognised, the Council has taken steps to align its overarching business plan with the mayor's priorities and its work programmes.</p> <p>During 2025/26 it will be taking steps to improve focus on delivery against that plan to ensure there is:</p> <ul style="list-style-type: none"> <li>- a golden thread that runs through the Council's policy and strategy framework from the Council Plan priorities</li> <li>- improved focus on articulating explicitly how decisions will impact on the achievement of Council Plan ambitions.</li> <li>- A refreshed Performance Management Framework.</li> </ul>

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Director of Legal and Governance Services
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	12 December 2024
<b>Title:</b>	Partnership Governance – Annual Assurance Report
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value

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

**1. Purpose**

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

**2. Recommendations**

2.1 That the Audit Committee:

- Notes the current position of the Council in relation to compliance with the Partnership Governance policy.
- Notes the planned actions to strengthen governance in relation to performance management.
- Considers whether the information provided has given the Committee sufficient assurance that the Council has appropriate arrangements in place in relation to partnership governance.

**3. Background and relevant information**

3.1 These ongoing actions will support good practice in the Council’s partnership governance arrangements.

#### **4. Other potential alternative(s) and why these have not been recommended**

4.1 The Partnership Governance Policy has been in place since it was approved by Executive in February 2020. A revised version is scheduled to be considered by the Mayor in December 2024.

4.2 The policy defines a partnership as ‘an arrangement in which the Council agrees to collaborate with one or more legally independent organisations to achieve shared objectives and outcomes’.

4.3 Partnerships are key to the Council achieving its strategic objectives and their importance will inevitably increase in the coming years. It is critical that partnerships are managed with the same diligence as the internal activity described above to ensure that their contribution to the Council’s strategic aims and priorities are maximised.

4.4 The key elements of the policy are:

- Each partnership will have a lead manager of appropriate seniority.
- The business case for a partnership will be approved by the appropriate body in the Council before the Council formally enters into a partnership agreement.
- All agreed partnerships will meet a minimum standard, with the level of detail required to be determined by the significance of the partnership in strategic and financial terms. This will include, for example, the partnership vision, aims and objectives, KPIs, governance arrangements, resourced action plan, and monitoring, review and dissolution processes. All formal partnership agreements and structures must be approved by Legal Services.
- A partnership register will be maintained that lists and defines all partnerships, setting out how they contribute to the Council’s strategic aims and priorities.
- An annual review of the performance of significant partnerships will be integrated with the Council’s performance management reporting and be informed by an assessment of the lead manager.
- Training and guidance for those employees engaged in collaborative working will be provided.

##### *Partnership Governance Register and Framework*

4.5 The Partnership Governance Register assesses the health of existing partnerships across the following principles:

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



### *Partnership Governance Register and improvement activity update*

4.6 Within the last annual assurance report on Partnerships governance, a number of activities were outlined for delivery in the following year to strengthen the governance of four partnerships. The table below provides an update on that activity:

<b>Partnership</b>	<b>Issue</b>	<b>Planned action</b>	<b>Status</b>
South Tees Health and Wellbeing Board	There are currently no Key Performance Indicators (KPIs) in place to measure delivery of the current overarching strategy although longer term targets exist and there are detailed metrics to measure delivery of supporting strategies	This is a significant piece of work which commenced in 2022 as a planned action with the target date of December 2023 put in place at that time.  Work is ongoing to ensure the planned refresh of the overarching South Tees Strategy in 2023 includes a supporting performance management framework to be developed to measure the effectiveness of actions to address health inequalities.	This has now been completed with the Board agreeing a new Health and Wellbeing Strategy which was presented to Executive in October 2024
North East Migration Partnership	The partnership has had some capacity issues during 2022/23 and is also continuing to improve its governance arrangements.	Code of Conduct will be developed & additional staffing to add capacity around data and governance improvements	Complete
Middlesbrough Children's Trust	KPIs to measure impact have started to be developed	The Partnership are currently in the process of developing a new set of priorities. The previous 3 priorities are operated as Business As Usual (BAU).	Complete
Middlesbrough Children's Improvement Board	KPIs are in place and performance is at 90% which is the target, however the board was assessed as amber because it is in place as a result of OFSTED determining that Children's services in Middlesbrough require improvement issued March 2023.	Continue to deliver activities to further improve practice to move the Council out of intervention.	Complete

### *2024 assessment and 2025 planned improvement activity*

4.7 In this report, the health of partnerships during 2023/24 was assessed as follows:

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

4.8 During 2023/2024 a number of changes were made to key partnerships which were reflected in the annual assessment. There were also a number of events and actions which have impacted on the partnership assessments which were completed by the Lead officer responsible for each partnership.

#### Tees Valley Combined Authority (TVCA)

4.9 Following the identification of a number of governance issues within a Tees Valley Independent Review commissioned by the former Secretary of State, the assessment of performance and governance for 2023/24 was amended by the interim Chief Executive.

4.10 This reflects the content of that report and the proposed actions that TVCA have set out to address the report findings. A Statutory Officer Working Group has been established and the interim Chief Executive for Middlesbrough Council was appointed as a member. In addition, the organisation has engaged with the Local Government Association (LGA). A peer review by the LGA is also planned to assess progress. The outcome of this will be reflected in the next annual review of partnership governance.

#### South Tees Health and Wellbeing Board

4.11 The Board score for performance moved from amber to green following the deliver of two key pieces of work in 2023/24. The Board refreshed both the Joint Strategic Needs Analysis (JSNA) and its Joint Health and Wellbeing Strategy. The JSNA provides renewed insight into the public health needs of our residents and the new strategy sets out how they will be met.

#### North East Migration Partnership

4.12 The improved governance score from amber to green reflects the outcome of work during 2023/24 to develop additional governance documents to support the good governance of the partnership.

#### Middlesbrough Children's Trust and Children's Services Executive Improvement Board

4.13 Following successful delivery of a four-year improvement plan for children's services, the scoring for the trust was amended to move performance from amber to green. This

reflects the end of government intervention in 2024 in children’s services. The improvement board was also ceased during 2024 following the end of intervention.

Middlesbrough Environment City Trust Limited

4.14 The Trust was removed as a key partnership following a decision by Council, as part of the 2024/25 budget setting process, to remove funding for the trust.

SHiFT partnership

4.15 SHiFT was added as a new key partnership, following its creation on 2023. It is a three-year partnership with SHiFT, a youth justice charity that will work intensively with two cohorts of children to improve outcomes for them.

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

<b>Topic</b>	<b>Impact</b>
Financial (including procurement and Social Value)	It is anticipated that all activities set out in this report are achievable within existing and planned budgets.
Legal	The proposed activity is consistent with and will promote the achievement of the Council’s legal duty to achieve Best Value.
Risk	<p>This report highlights current compliance with the Partnership Governance policy and planned actions to improve governance by TVCA. If delivered successfully this will have a positive impact on the following risk:</p> <ul style="list-style-type: none"> <li>• If the <b>Council and its partners do not have the collective capacity to deliver system wide change to key issues</b> such as public health, crime and safeguarding, then this could result in the population’s health, wellbeing and safety declining.</li> </ul>
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no concerns that this report could have an adverse impact on these rights.
Climate Change / Environmental	There are no concerns that this report, which is for information only, could have an impact on this.
Children and Young People Cared for by the Authority and Care Leavers	There are no concerns that this report, which is for information only, could have an impact on this.
Data Protection	There are no concerns that this report, which is for information only, could have an impact on this.

<b>Body</b>	<b>Report title</b>	<b>Date</b>
Executive	Delivering the Strategic Plan	18 February 2020
Corporate Affairs and Audit Committee	Partnership Governance Annual Assurance report	23 September 2023
Audit Committee	Partnership Governance – annual assurance report	14 December 2023
Executive	Partnership Governance Policy	4 December 2024

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Director of Adult Social Care and Health Integration
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<b>Submitted to:</b>	Audit Committee
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<b>Date:</b>	12 December 2024
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<b>Title:</b>	Direct Payments
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<b>Report for:</b>	Information
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<b>Status:</b>	Public
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<b>Council Plan priority:</b>	Safe and resilient communities
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#### **Executive summary**

This report outlines the findings from the most recent Direct Payment Audit Report and the actions management have or will be taking to implement the recommendations. There are 4 findings shown below that require quick resolve by management and have produced a finding of Limited Assurance.

- Recommendation 1: Annual review of direct payment provision by Social Care staff
- Recommendation 2: Monitoring of direct payment spend by the Adult Social Care Finance Team
- Recommendation 3: The Council does not record the prevalence of family members employed as personal assistants.
- Recommendation 4: DP applicants are not informed of the legal requirements relating to misspending DP funds.

With the exception of recommendation 1 which is due to be fully implemented by May 2025 (see attached audit report) recommendations 2 has been fully implemented and signed off by Veritau, with recommendations 3 & 4 fully implemented and subject to approval by Veritau.

It should be noted that the Direct Payment Audit was requested by the Service and whilst a number of improvements have been made, a more comprehensive review was requested. The purpose of this review was to ensure that any further opportunities to improve the process were identified and responded to in a timely way. Whilst 3 out of the 4 recommendations have already been implemented, a comprehensive plan is in place to respond to recommendation 1 which the service are well underway with.

## **1. Purpose**

- 1.1 The purpose of this report is to set out the findings of a recently finalised investigation by the Council's Internal Audit service, Veritau, into the arrangements for Direct Payments and to describe the management action plan in response to the audit recommendations.
- 1.2 The audit took place following a request by management within Adult Social Care for Internal Audit to assess arrangements for Direct Payments

## **2. Recommendations**

### 2.1 That the Audit Committee

- Notes the content of the internal audit report appended to this report.
- Notes the action taken to date and underway to address the concerns raised in that report.

## **3. Background and relevant information**

- 3.1 Direct payments are local health and social care payments for people who have been assessed as needing help from social services and who would prefer to arrange and pay for their own care and support rather than to receive services directly from the local authority. The aim of direct payments is to allow the service user greater choice and control through the flexibility of being able to purchase their own care package. The Care Act (2014) mandated direct payments for the first time in April 2015.
- 3.2 The Council's direct payments guidance defines direct payments and under what conditions direct payments can be made. In the year 2023/24, £9,690,242.40 were made to adults and carers and £318,735.83 were made to children. At the start of the audit, December 2023, there were 832 active customers currently in receipt of direct payments; 555 adults on a managed account, and 217 adults who have their direct payment made directly into their account. There are also 59 children who receive direct payments.
- 3.3 The audit was requested by management within Adult Social Care as concerns had emerged around adherence to established policy. Its intention was to assess the extent to which assurance could be provided to management that procedures and controls within the system would ensure that:
  - Up to date guidance notes are available for customers wishing to apply for direct payments, and also for Council staff involved in administering the scheme.
  - Payments are made to customers accurately in line with an agreed timetable.
  - Direct payment accounts are monitored, reviewed, and reconciled on a reasonable basis, and in line with Council Policy.
- 3.4 The audit reviewed the period December 2022 to December 2023.

3.5 The audit determined that while there are effective processes in place for some elements of the process, there are 4 findings that require early resolve by management as collectively they have produced a finding of Limited Assurance. The attached audit report clearly outlines the actions that will be taken to deliver the recommendations, in summary these are shown below:

- **Recommendation 1: Annual review of direct payment provision by Social Care staff:** Initial 6 months review and annual reviews thereafter are not consistently undertaken within the statutory timescale. The combination of high demand and staff vacancies has resulted in delays in reviewing; this is a common problem for Local Authorities but does represent a failure to comply with statutory timescales.
  - **Action:** Plans are in place to utilise temporary staff, funded by Flexible Use of Capital Receipts, with the intention of eradicating the backlog. A further plan has been agreed in the actions to facilitate future compliance with timescales along with further dip sampling to provide assurance of compliance for management. The reviews in question are routine scheduled meetings; in the event however that an individual’s care needs change suddenly, the individual or their carer can request an “unscheduled” review. These unscheduled reviews in response to changing need have taken place throughout the period of the review and continue to do so as a normal element of adult social care practice – this serves to reduce, but not eradicate, the risk associated with a backlog of routine reviews. The date of full implementation will be May 2025.
  
- **Recommendation 2: Monitoring of direct payment spend by the Adult Social Care Finance Team:** Similar to recommendation one, this recommendation identifies that current resources means that during the review period reviews of the financial situation of Direct Payments users are not completed consistently in line with established timescales.
  - **Action:** Recommendation has been fully implemented and signed off as complete by Veritau on 5 December 2024.
  
- **Recommendation 3: The Council does not record the prevalence of family members employed as personal assistants:** DP guidance states that individual Direct Payments users should not employ individuals living in the same household unless there are exceptional circumstances to justify this. Internal Audit observed that Middlesbrough Council did not have a central record of DP packages where a household member is the personal assistant – Internal Audit also observed that in other areas there has been reason to believe that there is a particular risk of fraud where the personal assistant is a relative from then same household.
  - **Action:** Implemented – pending audit sign off.
  
- **Recommendation 4: DP applicants are not informed of the legal requirements relating to misspending DP funds:** This recommendation highlights that at the establishment of a DP “package” we have not been sufficiently clear in explaining to individuals the potential for legal action to be taken to recover money in certain situations.
  - **Action:** Implemented – pending audit sign off.

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

4.1 The recommendations outlined are required in order to comply with the Care Act 2014; on this basis alternatives have not been recommended.

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

4.2 Completion of the identified recommendations will ensure Direct Payments compliance with the Care Act 2014.

Topic	Impact
Financial (including procurement and Social Value)	For context, the 23/24 Adult's net budget for direct payments was £8.101m with an outturn of £8.037m. In 2024/25, Adult Social Care has had £1.277m additional resources approved from Flexible Use of Capital Receipts approved for transformation. During December 2024, an application is to be made to re-purpose £0.161m of this resource to fund the additional agency staff required to undertake the outstanding reviews. Implementing the recommendations identified in the Audit report will minimise the financial and reputational risk to the Council resulting from direct payments.
Legal	The Council is required to offer a Direct Payments scheme that is compliant with the Care Act 2014.
Risk	Internal Audit have issued a "Limited Assurance" judgement in relation to Direct Payments; the risks identified in failing to comply with the required review period; providing insufficient information for service users about the consequences of fraud and the lack of a central record of relatives employed as personal assistants will be addressed by the management action plan.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no human rights, equality or data protection issues arising as a result of the recommendations in this report.
Climate Change / Environmental	There are no Climate Change / Environmental issues arising as a result of the recommendations in this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no issues relating to Children and Young People cared for by the authority and care leavers arising as a result of the recommendations in this report.
Data Protection	There are no issues related to data protection or GDPR arising as a result of the recommendations in this report.

#### Appendices

1	Direct Payments - Internal Audit Final Report dated 27th November 2024
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## Background papers

Body	Report title	Date
None		

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INTERNAL AUDIT REPORT

# DIRECT PAYMENTS

## MIDDLESBROUGH COUNCIL

Page 67

	Critical	Significant	Moderate	Opportunity
Findings	2	1	1	0
Overall audit opinion	<b>Limited Assurance</b>			

Status: Final

Date issued: 27 November 2024

Responsible officer: Director of Adult Social Care and Health Integration

## INTRODUCTION

Direct payments are local health and social care payments for people who have been assessed as needing help from social services and who would prefer to arrange and pay for their own care and support rather than to receive services directly from the local authority. The aim of direct payments is to allow the service user greater choice and control through the flexibility of being able to purchase their own care package. The Care Act (2014) mandated direct payments for the first time in April 2015.

The Council's direct payments guidance defines direct payments and under what conditions direct payments can be made. In the year 2023/24, £9,690,242.40 were made to adults and carers and £318,735.83 were made to children. At the start of the audit, December 2023, there were 832 active customers currently in receipt of direct payments; 555 adults on a managed account, and 217 adults who have their direct payment made directly into their account. There are also 59 children who receive direct payments.

The managed accounts are the responsibility of Penderels Trust, who work in partnership with the Council to support adults and children who receive a direct payment. The support offered includes payroll services and helping with money management and maintaining accurate records.

## OBJECTIVES AND SCOPE

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

- ▲ Up to date guidance notes are available for customers wishing to apply for direct payments, and also for Council staff involved in administering the scheme.
- ▲ Payments are made to customers accurately in line with an agreed timetable.
- ▲ Direct payments accounts are monitored, reviewed and reconciled on a reasonable basis, and in line with Council Policy.

The audit reviewed the period December 2022 to December 2023. Testing took place between February and June 2024.

At the request of management, we included in the audit a review of direct payments paid to family members employed as personal assistants and a review of the use of direct payments to establish if they are being used to purchase services from agencies that are already included on the Council's provider framework. However, this was not possible as the relevant records were not logged by social workers.

## KEY FINDINGS

For customers wishing to apply for direct payments, the Council's website provides guidance (last reviewed in 2020 and due to be reviewed following a recent update to guidance to staff) on what a direct payment is, how they can get an assessment and how to act on behalf of a person requiring support. Further information regarding how direct payments will be monitored and the customer's responsibility regarding procuring service providers and managing payments is given in the direct payment agreement that is produced for each customer. Guidance has been provided to staff (last reviewed in March 2024) which covers the relevant elements of the Care Act (2014), detailing the social worker's responsibility in assessing and making decisions regarding direct payments.

We noted that direct payment application forms and agreement documents do not inform the customers of the potential legal consequences of intentionally mispending the funds provided for their support plans, which could constitute fraud. As a result, the Council may encounter difficulties in any attempt to take robust action and recoup monies if any such instances were to occur.

Processes are in place to ensure that payments are made accurately and on time and that, if care provision changes, then the payment is changed without interrupting the payment schedule. A direct payment will not be set up without a referral from the social worker in charge of the case, and subsequent authorisation from the team manager. Controls are in place to reconcile direct payments against the general ledger system. Testing confirmed that timely action is taken by social workers to cease payments once direct payment provision has been ended. Performance monitoring over third-party direct payment account managers is carried out using quarterly updates reports and regular meetings with the third party. The finance team monitor their performance internally in 1-2-1 meetings and appraisals.

We confirmed that there is a process in place for monitoring monthly spend by service users and there is a regular system of oversight for accounts managed by third party suppliers. There are processes in place for identifying and recouping excess balances both from accounts managed by the service user and from accounts managed by third party suppliers.

The Council's internal guidance document states that direct payments should be monitored once every 12 months by the Adult Social Care Finance Team. Monitoring ensures that surplus balances are removed from the accounts where funds have accumulated and that any indication that the provision is no longer required or suitable to the customer is flagged to the relevant social worker. Monitoring does take place but current resources do not allow for monitoring to happen in accordance with the 12 month requirement.

While the costs detailed on support plans are not always in line with current direct payments, the discrepancy is due to the change in costing amounts rising in line with inflation. The agreed provision is still up to date, and we confirmed that spending is in line with requirements.

The Council currently delegates assessments and preventative services to five external providers. Each contract contains a clause allowing access to records for the purposes of monitoring and audit as required by the Care Act (2014).

The Care and Support (Direct Payments) Regulations 2014 set out that the local authority must review the making of direct payments initially within 6 months, and thereafter every 12 months and must not require information to be provided more often and in more detail than is reasonably necessary for the purpose of enabling the authority to know that making direct payment is still an appropriate way of meeting the needs. Testing has shown that the Council is not complying with either of these legislative requirements.

Cases of fraud have been uncovered at other local authorities where family members employed as personal assistants have claimed money through direct payments where care was not required or not provided. To properly assess this fraud risk, the Council should understand the prevalence of family members employed as PA's among its direct payment recipients. The Council does not currently record this information in a central location that would enable it to monitor the potential for fraud.

## Overall Conclusions

Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Limited Assurance.

## 1 Annual review of direct payment provision by Social Care staff

Critical

### Control weakness

The Council is failing to comply with legislative requirements.

### What is the risk?

Care needs are not met.

Inappropriate use of direct payments is not identified due to insufficient monitoring.

### Findings

The Care and Support (Direct Payments) Regulations 2014 set out that the local authority must review the making of direct payments initially within 6 months, and thereafter every 12 months and must not require information to be provided more often and in more detail than is reasonably necessary for the purpose of enabling the authority to know that making direct payment is still an appropriate way of meeting the needs.

Our testing has confirmed that the Council is not complying with these legislative requirements. Of the 217 current adult direct payment customers, 102 (47%) had not been reviewed in the last 12 months and, of those, 35 (16%) had not been reviewed in the last 24 months.

Additional sampling found that, for 8 out of 10 cases reviewed, there was no evidence of a six-monthly review record available. Four out of the 10 did not have any review available (6 month or 12 monthly review).

This situation was discussed with the Principal Social Worker for Adults, who confirmed that social workers are behind with reviews and stated that this is due to resourcing challenges. Monitoring records exist which detail the date of the last review to be undertaken for all direct payment customers. However, the data is not analysed by management in terms of prioritising the most overdue reviews, or for any trends that may highlight where the resourcing pressures are most acute.

As well as not complying with legislative requirements in relation to the reviewing of direct payments, there is a risk that fraudulent use of direct payment money could go undetected.

**Agreed action**

Additional agency social work staff will be recruited to assist established teams to complete overdue reviews.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** 31 December 2024

**Agreed action**

An implementation plan will be put in place to address the backlog of 102 overdue reviews.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** Implemented

**Agreed action**

The outstanding 102 annual reviews will be completed.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** 31 May 2025

**Agreed action**

A plan will be put in place to ensure that all new direct payment cases going forward have an initial 6 month review and all new and ongoing cases have a 12 month review thereafter.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** 31 January 2025

**Agreed action**

A dip sample of 10% of new direct payment cases will be audited by the service each month over the 12 month period to check the process is being followed.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** 30 November 2025



## 2 Monitoring of direct payment spend by the Adult Social Care Finance Team

Critical

### Control weakness

Direct payments are not being regularly monitored to ensure that payments are being spent appropriately and that the provision is still required.

### What is the risk?

Council funds are misspent on provisions that are not appropriate/required.

### Findings

The Council's internal guidance documentation states that direct payments should be monitored once every 12 months by the Adult Social Care Finance Team in order to ensure that surplus balances are recovered from the accounts where funds have accumulated and that any indication that the provision is no longer required or suitable to the customer is flagged to the relevant social worker.

Whilst monitoring does take place, current resources do not allow for monitoring to happen according to the 12-month schedule as set out in the procedural requirements. From a sample of 10, only 1 had been monitored according to the annual schedule and three had been monitored after the date the sample was requested, suggesting that they had not had a completed monitoring record before that. Each direct payment account has its own individual monitoring document.

Each account should have no more than 8 weeks' worth of funds available though sometimes exceptions are made at the Council's discretion. There may be some instances when credit balances are slightly above 8 weeks' worth of direct payments. This could be for a variety of reasons, such as the resident having a known bill or invoices due for tax or national insurance contributions. In addition, the resident may also be saving monthly for an agreed holiday which is to be taken at a later date. From our sample, we found that 6 out of 10 had a surplus that was redeemed by staff (i.e., was not legitimate) of at least £1,000 and the highest had a surplus of £5,000 over the 8 weeks required funds. Without a spreadsheet providing an overview of all the current surpluses on direct payment accounts, it is not possible to establish the current level of surplus funds outstanding.

The monitoring record is not fully completed with fields left vacant such as the customer’s LAS number, the full details of when the record was last monitored and the total expenditure between monitoring periods. When queried, we were informed that a process to review direct payment policies had been started and the completion of monitoring forms would be added to the task list.

**Agreed action**

A rectification plan has been put in place to look at the outstanding cases, which has significantly reduced in volume since the audit. All cases will be reviewed within 12 months moving forward.

**Responsible officer:** Head of Resident and Business Support

**Timescale:** Implemented

**Agreed action**

In respect of direct payments, any such awards are paid 4 weekly, in advance. Revisions to working practices will be made in order to more easily identify accounts with large balances and action taken as necessary.

**Responsible officer:** Head of Resident and Business Support

**Timescale:** Implemented

**Agreed action**

Refresher training has been delivered in respect of direct payment monitoring and the agreed standards. Monthly manager checks will be undertaken to ensure the quality of such monitoring and that this has improved to the required standards. Work will also be undertaken to identify if it is an option to auto populate some fields or alternatively, make such fields a mandatory requirement when carrying out these checks.

**Responsible officer:** Head of Resident and Business Support

**Timescale:** Implemented



**3 The Council does not record the prevalence of family members employed as personal assistants.**

**Significant**

**Control weakness**

The Council does not monitor direct payment cases where family members are employed as personal assistants for fraud.

**What is the risk?**

Fraudulent activity is not detected, leading to reputational damage to the Council.

**Findings**

A number of large value direct payment fraud cases have been discovered at local authorities where family members have been employed as personal assistants for direct payment recipients. Investigations found that in some cases, care was not required whereas in other the family member did not provide adequate care.

Guidance recently issued by the Council (May 2024) states that:

- *A DP cannot be used to pay someone living in the same household unless there are exceptional circumstances. An exceptions form needs to be completed and sent to the Head of Service for agreement before the DP can go ahead.*
- *A direct payment can be used to pay a friend or relative who is not living in the same household if it is to meet an eligible need, and it is appropriate to do so.*

We found that the Council does not log all the direct payment cases where a family member or friend is employed as a personal assistant. This impairs the Council’s ability to effectively monitor whether family members are provided adequate care and to mitigate the risk of fraud.

**Agreed action**

Direct payment guidance has been updated to reflect current legislation and amended to reflect that family members living in the same house cannot be employed as a personal assistant unless in exceptional circumstances.

An exceptions form has been developed that must be completed if the request is to pay someone living in the same household.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** Implemented

**4 DP applicants are not informed of the legal requirements relating to misspending DP funds**

**Moderate**

**Control weakness**

Direct payments application forms and agreement documents do not inform the legal consequences of misspending the funds provided for their support plans.

**What is the risk?**

Fraudulent activity is not robustly addressed, leading to reputational damage to the Council.

**Findings**

The Council sets up an agreed support plan with each direct payment customer which ensures that the conditions relating to the payments are fully understood by both parties.

If direct payment customers were to wilfully misspend the money provided for their care, i.e., by spending it on something other than the agreed upon services in their support plan, they could be committing fraud. The Council will therefore have recourse to the courts to recoup the money if the customers refuse to pay it back. However, if the customer is not advised beforehand that they may be pursued for fraud if they misspend the direct payments, then effectively prosecuting the case may be difficult. A review of the guidance and direct payment agreements made with customers has shown that they do not mention fraud and the legal repercussions of misspending the direct payments.

**Agreed action**

Direct payment guidance will be amended so that staff are aware of their duty to inform the person of the legal implication of mis-using their Direct Payment.

A paragraph will also be added to the Direct Payment Agreement document informing the person of their legal responsibilities.

**Responsible officer:** Head of Specialist and Lifelong Services

**Timescale:** Implemented

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

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

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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Director of Finance (S151 Officer)
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<b>Submitted to:</b>	Audit Committee
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<b>Date:</b>	12 December 2024
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<b>Title:</b>	Treasury Management – Mid Year Review – 2024/25
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<b>Report for:</b>	Discussion
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<b>Status:</b>	Public
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<b>Council Plan priority:</b>	Delivering Best Value
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### Executive summary

In accordance with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management, the Council is required to approve a Treasury Management Strategy and a set of Prudential Indicators on an annual basis. This self-regulates the level of capital financing activities of the Council and the long-term affordability and the value for money achieved in delivering capital investment and managing the short, medium, and long-term borrowing and investment decisions of the Council.

The Treasury Management Strategy is therefore a critical foundation of the Council's financial management and governance framework and is a key aspect of securing the Council's financial recovery and long-term financial resilience.

*Whilst the Executive is responsible for the setting and monitoring of the annual strategy, the CIPFA Code requires a separate body within the organisation to be responsible for the scrutiny of treasury management activities and any decision-making undertaking. Given its governance role, Audit Committee is seen as best placed to undertake this role and ensure officers and the Executive are held to account so that the Council complies with best practice.*

This report sets out the 2024/25 mid-year performance against the annual treasury management strategy approved by Council and gives an analysis of the results achieved to date. This information was reported to Executive on 4 December 2024. The key points for Members to note on this are as follows compared to the original strategy approved on 8 March 2024:

#### Borrowing

- Treasury management activity has remained compliant with approved prudential management indicators during the first six months of 2024/25.

- The amount of borrowing required during the year is expected to be £19.894m compared to an approved budget of £36.437m due primarily to slippage in expenditure in the capital programme and a lower level of Exceptional Financial Support (EFS) being required than planned.
- The Council's underlying need to borrow which reflects the total of all historical capital expenditure financed from borrowing is called the Capital Financing Requirement (CFR) and is expected to be £305.707m on 31 March 2025.
- The Council does not borrow externally for the total amount of the CFR as it holds internal cash balances against which it borrows internally as part of its Treasury Management Strategy. Total external debt was £249.300m on 30/09/24.
- The Council is therefore expected to be 'under borrowed' by £27.513m or 9.0% at the financial year end. This means that it is using its internal cash balances rather than borrowing externally to fully fund the CFR. This is good practice to avoid unnecessary revenue costs and effective cashflow management.

#### Investments

- All cash investments have been made in line with the Council's credit worthiness criteria, generally with either central government or other local authorities.

#### Affordability

- The net annual revenue cost of financing the Council's current and historic debt, less income from its historic commercial investments and on cash balances is £11.154m or 7.8% of the net revenue budget for the financial year. This reflects the cost of loan principal repayment (Minimum Revenue Provision - MRP) and interest on external borrowing.
- The affordability limit advised by the s151 Officer is for revenue costs of capital financing to be contained within 10% of the net revenue budget.
- The cost of capital financing in future years rises markedly over the medium-term financial plan to be just over 9% by 2026/27 See Table 5.
- The long-term forecast shows costs approaching 10% by 2029. This will limit the availability of borrowing as a source of funding future capital investment and more reliance will be required on external funding and capital receipts and/ or projects, which will reduce operating costs or increase operating income of the Council.

The work of the Corporate and Strategic Capital Boards will bring focus to improving the effectiveness of capital programme management in the future.

*The main body of the report gives more details for Audit Committee on the framework used to manage treasury management and the capital financing position of the Council. Effective scrutiny in this context involves gaining assurance that activities comply with best practice and publicly examining decision making to help shape future strategies and policies. This ensures that good governance is in place and that resources are used effectively and value for money is achieved.*

*Members should review the report that informed the budget setting process and the prudential indicators originally set to support the revenue budget and capital programme on 8 March 2024. This can be found at Appendix C of the report approved by the Council or by following [07\) Executive - Treasury Management Strategy - FINAL](#)*

## **1. Purpose**

- 1.1 This report provides an important update to the Audit Committee on performance in relation to the Council's borrowing, investments, and cash-flow for the 2024/25 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It should be read in conjunction with the Council's revenue and capital quarter two budget monitoring report for 2024/25 to understand the full financial position of the Council.
- 1.2 The report also provides the mid-year Prudential Indicators results for 2024/25 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.
- 1.3 The report gives Audit Committee members important information on the treasury management strategy, position on capital financing and prudential indicators, and whether these are contributing to the effective management of the capital programme and the resources allocated to pay for these, as part of the revenue budget process.

## **2. Recommendations**

### **2.1 That the Audit Committee**

- Note the mid-year Prudential Indicator results for 2024/25 as the Council's current position in relation to capital finance activities and overall indebtedness. (Tables 1- 5)
- Note the performance of the treasury management function against the Council's approved strategy for the 2024/25 financial year to date. (Para 3.33 – 3.38)
- Review this performance and ask for any further details or explanation as they require either from the Executive and/or Officers.

## **3. Background and relevant information**

- 3.1 The Council's treasury management strategy for 2024/25 (including prudential indicators) was approved at the annual budget setting meeting on 8 March 2024. The Authority both borrows and invests substantial sums of money to provide liquidity for its revenue and capital plans, and is therefore exposed to various financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the treasury management strategy each year.
- 3.2 The Council is a net borrower overall. The borrowing required to fund its capital programme is significantly higher than its normal cash balances that are available for operational purposes and investments. As a result, the timing of capital financing decisions has a significant impact on the overall treasury strategy within the Council, the total cost involved and how risk is managed.
- 3.3 The structure of this report to assess performance against the 2024/25 approved treasury strategy for the financial year to date is as follows:

- Capital expenditure and financing for 2024/25.
- The Council’s overall borrowing need.
- Prudential indicators and any compliance issues.
- Treasury position on 30 September 2024.
- The economic background for the 2024/25 financial year so far.
- A summary of the Treasury Management Strategy approved for 2024/25.
- Treasury Management activity and compliance to date.

Capital Expenditure and Financing 2024/25

3.4 The Council undertakes capital expenditure on long term assets, which can be financed as follows:

- immediately during the year of incurring the expenditure, through capital receipts, capital grants, contributions or from revenue.
- if insufficient financing is available, prudential borrowing can be used to spread these costs over future financial years.

3.5 Part of the Council’s treasury activities is to address this borrowing need, either through borrowing from external bodies – predominantly the Public Works Loan Board (PWLB), other banks and financial institutions, or by utilising temporary cash resources within the Council (internal borrowing). The wider treasury activities also include managing the day-to-day cash flow position, its previous borrowing activities, and the investment of surplus funds from cash balances that are not required immediately. These activities are structured to manage risk foremost and then optimise performance where appropriate.

3.6 Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total forecast capital expenditure for the year and how this is expected to be financed. Further information on the capital variances at directorate level from the original budget and what impact this has had on the overall financing of the programme can be found in the 2024/25 quarter two revenue and capital budget monitoring report.

*Table 1: Capital expenditure and financing: 2023-24 FY to 2026-27 FY*

	2023/24 actual (£m)	2024/25 original budget (£m)	2024/25 forecast outturn (£m)	2024/25 variance (£m)	2025/26 original budget (£m)	2025/26 revised budget (£m)	2025/26 variance (£m)	2026/27 original budget (£m)	2026/27 revised budget (£m)	2026/27 variance (£m)
Prudential Borrowing	18.469	23.037	11.694	(11.343)	28.009	28.803	0.794	1.913	8.282	6.369
EFS Borrowing	-	13.400	8.200	(5.200)	-	-	-	-	-	-
Capital Receipts	-	6.000	6.000	-	6.000	6.000	-	6.000	6.000	-
Flexible Use of Capital Receipts	2.399	13.700	6.544	(7.156)	7.700	14.856	7.156	5.300	5.300	-

Grants	26.375		29.897	38.813	8.916		27.931	44.241	16.310		-	3.404	3.404
Contributions	0.471		2.515	1.295	(1.220)		3.578	2.638	(0.940)		-	4.865	4.865
<b>TOTAL</b>	<b>47.714</b>		<b>88.549</b>	<b>72.546</b>	<b>(16.003)</b>		<b>73.218</b>	<b>96.538</b>	<b>23.320</b>		<b>13.213</b>	<b>27.851</b>	<b>14.638</b>

### The Council's overall borrowing requirement

3.7 The Council's underlying need to borrow is called the Capital Financing Requirement.

The CFR results from the capital activity of the Council and resources used to pay for the capital expenditure over time. It represents 2024/25 and prior years' net capital expenditure which has not yet been paid for from revenue, capital receipts or other external resources and therefore must be met from borrowing.

3.8 The CFR will normally be a combination of external borrowing (from third parties in the form of loan arrangements) or from internal borrowing (from the council's own unapplied revenue and capital resources). External borrowing incurs both principal and interest costs as part of the Council's capital financing budget. Internal borrowing is from the Council's own cash resources and has an opportunity cost in that the cash is spent on capital activities, rather than invested.

3.9 Part of the Council's treasury role is to meet the funding requirements for this borrowing need. Depending on the funding requirements of the capital programme, the treasury team organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the government, through the PWLB, or the money markets).

3.10 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory guidance is in place to ensure that capital expenditure is broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a principal loan repayment of the long-term borrowing need from the revenue budget.

3.11 The Council's capital financing requirement for the next three financial years is shown in Table 2 and represent a key prudential indicator for the Council. The CFR position at the mid-year position for 2024/25 is expected to be £305.707m which is £26.156m lower than forecast at the start of the financial year. This is due to:

- a rebasing of the CFR calculation at the 2023/24 year-end of £9.613m to take into third party loan repayments.
- a reduction in the borrowing requirement for the capital programme of £16.543m including
  - a reduction of £5.2m in the expected need to rely upon exceptional financial support due to achievement of planned capital receipts from asset sales.
  - Slippage in the capital programme and large reductions in the CFR carry forward to the two subsequent years of £11.343m.

Table 2: expected change in the Capital Financing Requirement 2024/25 to 2026/27 FY

	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
<b>Opening CFR at 1 April</b>	<b>290.159</b>	<b>305.707</b>	<b>329.810</b>
Add: Capital expenditure financed by borrowing	19.894	28.803	8.282
Less: Minimum Revenue Provision	(4.316)	(4.700)	(5.323)
<b>Forecast closing CFR at 31 March</b>	<b>305.707</b>	<b>329.810</b>	<b>332.769</b>
<b>Approved CFR 2024/25 – budget setting</b>	<b>331.863</b>	<b>355.426</b>	<b>352.332</b>
Variance on CFR since budget set	(26.156)	(25.616)	(19.563)

#### Mid-year Treasury Position for 2024/25

3.12 Whilst the measure of the Council's underlying need to borrow is the CFR, the Director of Finance can manage the Council's actual borrowing position by:

- borrowing to the CFR level; or
- choosing to utilise some temporary cash flows instead of borrowing ("under borrowing").

3.13 Most local authorities have a degree of under borrowing within their CFR at present. This tends to be in the range of 10% - 20% of the total CFR. This means that external debt is lower than the need to borrow and other resources available have been used to bridge the gap. This strategy has been common as part of a Treasury Management approach to generating revenue savings in relation to annual capital financing costs, by deferring external borrowing, to a later point in time driven by cash flow/liquidity needs of the organisation. It also mitigates the Council's risk exposure on investments with external counterparties.

3.14 The Council's treasury management debt and investment position is organised by the Finance and Investment service to ensure adequate liquidity for revenue and capital spending needs, security for investments, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. These practice statements are available for officers, members, auditors, regulators, and members of the public to review if required.

3.15 A summary of outstanding balances is shown below.

Table 3 – summary of borrowing and investments and movement since 2023/24-year end position

<i>Treasury Position</i>	2023/24 Outturn Principal (£m)	Avg Rate (%)	2024/25 mid-year Principal (£m)	Avg Rate %
Public Works Loan Board	186.404	3.61	201.418	3.63
LOBO loans	18.000	6.26	18.000	6.26
Bank loans	13.900	7.00	18.582	7.00
Short term borrowing	29.800	3.85	11.300	3.63
<b>Total Debt</b>	<b>248.104</b>		<b>249.300</b>	
Cash Investments	(12.723)	4.83	(22.213)	4.56
<b>Net Debt</b>	<b>235.381</b>		<b>227.087</b>	

3.16 Around 85% of the Council's total debt is with central government via the PWLB on 30 September 2024. These loans vary in length from between 5 – 45 years and in essence, these match the lives of the capital assets they are financing. Most of the Lender Option Borrower Option (LOBO) and Bank debt was taken out by the Council in the early 2000's when interest rates were higher, but these options were more attractive than borrowing from central government at the time. Due to the terms and conditions on these loans, there is no option to refinance them in the short term.

3.17 The other type of financial instrument used is short-term borrowing from other local authorities. At times the Council will need cash liquidity to finance its revenue and capital commitments but interest rates for longer term borrowing may not in line with the overall treasury strategy and ambitions. In these cases, it is better value to finance this cash need over short periods of time, normally 1-3 months, even if interest rates are higher at that point. This allows the Council time to monitor market rates on long term debt for any temporary reductions in rates caused by fluctuations in economic data (both UK and worldwide) and in government policy.

3.18 Cash investments are temporary surpluses in liquidity that are either invested with central government (via the debt management office) or with other local authorities with a cash need to borrow. Over £0.700m in interest is forecast to be earned during 2024/25 on these balances at an average rate of around 4.6%.

3.19 The Council's total debt outstanding as at 31st March 2024 was £249.300m. The Council's revised CFR position was estimated to be £305.707m at Quarter Two. This means that the Council was "under borrowed by £56.407m or 18.5%. Most borrowing to

date has been to replace maturing short term debt and therefore most of the capital programme borrowing for the financial year still needs to be taken.

- 3.20 This “under borrowed” amount is currently financed by internal borrowing from cash balances which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position has the dual effect of reducing revenue costs incurred by the General Fund budget because borrowing costs are generally greater than investment returns. It also reduces counterparty risk by reducing our exposure to the inherent risks that exist in commercial banks and other financial institutions.
- 3.21 Gross Borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure and allows the Council some flexibility to borrow in advance of its immediate capital needs in 2024/25, if required.
- 3.22 Table 4 sets out the Council’s gross borrowing position against the CFR and shows **compliance with this prudential indicator** as debt levels continue to be lower than required over the medium term.

Table 4 – Gross Borrowing to Capital Financing Requirement comparison in millions

	2023/24 Actual	2024/25 Original	2024/25 Mid-year	2025/26 Forecast	2026/27 Forecast
Gross External Borrowing	248.104	310.535	278.194	306.997	315.279
Capital Financing Requirement	292.090	331.863	305.707	329.810	332.769
<b>(Under)/Over borrowing</b>	<b>(43.986)</b>	<b>(34.203)</b>	<b>(27.513)</b>	<b>(22.813)</b>	<b>(17.490)</b>
% of CFR	15.1	10.3	9.0	6.9	5.3

- 3.23 **The Authorised Limit** – The Authorised Limit is the “Affordable Borrowing Limit” required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.
- 3.24 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.



3.25 **Actual financing costs as a proportion of net revenue expenditure** - This identifies the trend in the revenue cost of capital (borrowing and other long term obligation costs net of investment income) as a proportion of the Council's net revenue budget. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential indicators in millions

	<b>2023/24 actual</b>	<b>2024/25 mid-year</b>	<b>2025/26 forecast</b>	<b>2026/27 forecast</b>
Authorised Limit (£m)	328.000	<b>372.000</b>	370.000	373.000
Operational Boundary (£m)	308.000	<b>326.000</b>	350.000	353.000
Capital Financing Requirement (£m)	292.090	<b>305.707</b>	329.810	332.769
Financing costs (£m)	9.235	<b>11.154</b>	13.253	13.960
Net Revenue Budget (£m)	126.354	<b>143.190</b>	148.601	152.176
Proportion of net revenue budget (%)	7.4%	<b>7.8%</b>	8.9%	9.2%

3.26 The table above also shows the profile of debt required to fund the capital programme over the whole of the medium-term financial planning period, and that this will rise to a maximum of £332.769m on 31<sup>st</sup> March 2027. This increase in indebtedness is a direct result of the amount required to fund the capital programme in each financial year, the EFS borrowing required, and any additional cash flow demands in each financial year due to the use of reserves and debt refinancing.

3.27 Although the Council does not have relatively highly debt levels against its comparator authorities, the strain on the revenue budget is increasing, particularly against the 2025/26 and 2026/27 budgets. When CIPFA introduced the Capital Finance Code of Practice in 2007, a nominal amount of 10% of the net revenue budget was suggested as being a maximum threshold for sustainability and prudence. Although some councils have exceeded this over the years the S151 Officer's advice is to contain capital expenditure financed by borrowing at a level which remains below this benchmark. This is particularly important given the Council's fragile financial position and the low level of unrestricted revenue reserves.

3.28 The levels though do remain aligned to the operational boundary (the Council's capital planning total) and are within the authorised limit approved by Members, which is the statutory limit for the Council in relation to external debt.

#### Economic Background 2024/25

3.29 A summary of the general economic conditions that have prevailed through the first six months of the 2024/25 is attached at Appendix 1 for information. This has been

provided the Council's external treasury adviser and gives some context on the current economic drivers that are influencing interest and bond rates at present.

### Summary of the Treasury Management Strategy agreed for 2024/25.

- 3.30 Treasury Management is defined as 'the management of the Council's cash flows, borrowing and investments, and the associated risk'. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk and refinancing risk.
- 3.31 The borrowing approach outlined in the treasury strategy was to achieve the optimum value for money for the revenue budget by a combination of long-term borrowing from the Public Works Loan Board when interest rates reached a trigger rate of below 4.75% and the maturity term of the new borrowing fitted in with the Council's current debt portfolio. If these conditions did not exist when cash balances fell below £10.000m, then short term borrowing would be considered for the minimum period possible, given that interest rates were expected to rise over the period. Additionally short-term borrowing would be capped at a maximum of 20% of the total of the Council's gross external debt balance.
- 3.32 The approach to investing cash balances is to follow the relevant government and CIPFA guidance in prioritising and protecting the principal sums involved by only investing with institutions on the Council's approved lending list. This factor is paramount and more important than the fact that higher interest rates that could be achieved on riskier and illiquid investments with longer duration terms. Only 10% of total investments could be deposited for periods over one financial year given the higher levels of risk associated with these products.

### Treasury Management activity during 2024/25

- 3.33 During the financial year, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 3.34 All borrowing and investment activity undertaken so far during the financial year has been in line with the approved strategy agreed, with no exceptions.
- 3.35 A total of £20m of new long-term borrowing was undertaken from the PWLB, with £18.800m repaid on either maturity or annuity loans. The total level of external debt for the Council rose by £1.200m during the first six months of 2024/25. Significant borrowing is still required to fund the capital programme, EFS and liquidity requirements over the remainder of the financial year. A further £30m - £35m is still required. Any borrowing decisions will be undertaken in line with the Council's approved treasury management policy and via consultation with external advisers. All the costs of the above debt decisions have been factored into the medium-term financial plan and are fully funded.

3.36 Investments were made with either central government or other local authorities on an almost daily basis to ensure that the Council’s overall liquidity position was protected. All principal sums invested have been repaid on time by each counterparty. The total interest earned on these temporary cash balances for 2024/25 is expected to be £0.700m and helps to balance the overall net capital financing budget of £11.154m.

3.37 The Councils Treasury Management function has complied with all the relevant statutory and regulatory requirements to date during 2024/25, which limit the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, financially affordable, and sustainable, and its treasury practices demonstrate a low-risk approach.

3.38 Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Arlingclose, the Council’s advisers, have proactively managed the debt and investments over the financial year.

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

4.1 Not relevant as the report is for discussion and scrutiny purposes only.

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

Topic	Impact
Financial (including procurement and Social Value)	<p>All relevant financial implications are outlined within the body of this report and the supporting appendix. The capital programme and financing being recommended in the budget report continues to remain affordable within the approved MTFP and revenue budget parameters. However, the Council needs to manage and prioritise its future capital investment and associated funding strategies more strictly over the term of the MTFP to maintain the revenue cost of capital investment within affordable and prudent parameters. The prudential and treasury management indicators and processes remain robust and within prudent limits over the term of the MTFP.</p> <p>Tables 3-5 outlines the key debt metrics, and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period.</p>
Legal	<p>There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers under either the local government act 2003 or the capital finance and accounting regulations.</p>

Risk	Any risk related issues are set out within the report. Risk management is an integral part of the Council’s treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document maintained by the central finance team.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report.
Data Protection	There are no applicable issues to consider within this report.

## Appendices

1	Economic Background – 2024/25 Financial Year – First Six Months
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## Background papers

Body	Report title	Date
Council	Revenue Budget, Capital Programme, MTFs and Prudential Indicators – Budget Setting Report	8 March 2024

**Contact:** Justin Weston, Head of Finance and Investment  
**Email:** [justin\\_weston@middlesbrough.gov.uk](mailto:justin_weston@middlesbrough.gov.uk)

## **Appendix 1**

### **Economic Background – 2024/25 Financial Year (first six months)**

UK headline consumer price inflation remained around the Bank of England (BoE) target, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.

The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.

Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.

Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.

With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.

The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.

Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.

Financial markets: Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial, and geopolitical issues meant it was a bumpy ride for bond investors during that time.

Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.

Credit review: Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.

Credit default swap prices were generally lower at the end of the period compared to the beginning for most of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.

Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Head of Internal Audit, Veritau
<b>Submitted to:</b>	Audit Committee
<b>Date:</b>	12 December 2024
<b>Title:</b>	Internal Audit Consultation Report 2025/26
<b>Report for:</b>	Information
<b>Status:</b>	Public
<b>Council Plan priority:</b>	Delivering Best Value

#### **Executive summary**

This report outlines arrangements for developing the internal audit work programme. It also asks for the Committee's views on any areas they think should be considered for audit in 2025/26.

## **1. Purpose**

1.1 To provide Members with information on the arrangements for developing the 2025/26 internal audit work programme. The report also asks for the views of the Committee on areas that should be considered a priority for audit in 2025/26.

## **2. Recommendations**

2.1 That the Audit Committee

- Provides its views on areas that should be considered a priority for inclusion in the 2025/26 internal audit work programme.

## **3. Background and relevant information**

3.1 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.

3.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.

3.3 The PSIAS set out requirements for the development of internal audit work programmes. These include the need to seek the views of the Committee on audit work to be undertaken.

3.4 The consultation report is contained in appendix 1. It contains information on our approach to producing the work programme and background on our internal audit opinion framework. It also asks the Committee to suggest any areas it believes should be considered for inclusion the work programme

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

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

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

Topic	Impact
Financial (including procurement and Social Value)	There are no specific impacts or implications.
Legal	There are no specific impacts or implications.
Risk	There are no specific impacts or implications.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no specific impacts or implications.
Climate Change / Environmental	There are no specific impacts or implications.
Children and Young People Cared for by the Authority and Care Leavers	There are no specific impacts or implications.
Data Protection	There are no specific impacts or implications.

**Appendices**

1	Internal Audit Consultation Report 2025/26
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**Background papers**

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

**Contact:** Phil Jeffrey  
**Email:** [phil.jeffrey@veritau.co.uk](mailto:phil.jeffrey@veritau.co.uk)



# Internal Audit Work Programme Consultation 2025/26

Date: 12 December 2024

Appendix 1

## CONTENTS

- 3** Introduction
- 4** Approach: The Opinion Framework
- 6** Key assurance areas
- 10** Questions for the committee to consider
- 11** Next steps
- 12** Annex A – an overview of the opinion framework

## Introduction



- 1 The Public Sector Internal Audit Standards (PSIAS), and the Council's audit charter, require internal audit to draw up an indicative programme of work based on an assessment of risk. The standards require internal audit to independently form a view on the risks facing the Council. The standards also require the opinions of members of the Audit Committee and senior Council officers to be considered when forming that view.
- 2 A specific public sector requirement for internal audit is that the risk-based plan (or programme) must take into account the requirement to produce an annual internal audit opinion. Internal audit work programmes cover a range of risk areas to ensure that the work undertaken enables Veritau to meet the requirement to provide an overall opinion on the framework of governance, risk management, and control operating at the Council.
- 3 In relation to these requirements, the Committee's views are sought on areas it considers a priority for internal audit coverage during 2025/26. This report represents the first stage in consultation on the annual programme of work.
- 4 We are bringing the consultation report to the Committee earlier this year in order to move forward our reporting cycle. A full draft programme is expected to be brought to the Committee in March 2025.

### **The year ahead**

- 5 The Council was issued a Best Value notice by the government in January 2023 due to concerns from about the way the Council was operating. This followed governance issues identified at the Council in internal and external audit reports.
- 6 The Best Value notice was subsequently re-issued in January 2024 but it was then removed in September 2024 as the government recognised the positive changes that have been made. The Council accepts that whilst this reflects the work that has already been carried out there will be more work to do to ensure that the Council's governance arrangements are fit for purpose.
- 7 The Council is currently in a difficult financial position which it has recognised as 'critical' and 'extremely challenging'. The Council received £13.4m in exceptional financial support from the government during 2024/25.
- 8 In order to address this the Council has a savings delivery programme and a transformation programme ("Recover, Reset, Deliver") underway. The outcomes of these programmes over the next year will be closely linked to any potential improvements in the Council's financial position.

## Approach: The Opinion Framework

### Background

- 9 In addition to the requirements referred to above, the PSIAS also expect that the risk-based programme of work is linked to, and contributes to:
- the management of strategic risks, and
  - the achievement of organisational objectives and priorities.
- 10 The annual opinion is the most important output from internal audit and a key source of objective assurance for the Council's leadership team and those charged with governance. It also helps to inform the Annual Governance Statement. The opinion must therefore be well founded if it is to provide proper assurance to the Council.

### The opinion framework

- 11 Veritau has an opinion framework which sets out the principles used to develop and manage the audit work programme. It ensures audit coverage is aligned with the Council's risks and targeted towards the key priority areas. We continuously revisit those priorities during the year so that the work programme remains up to date.
- 12 The main component of the opinion framework is a definition of key assurance areas. These represent 11 areas of internal control that we think are essential to the proper functioning of the Council. Systems and controls in each area need to be operating effectively to maximise the likelihood that the Council's objectives are achieved without undue exposure to risk. The areas cover both corporate arrangements, and the management of risks and controls in individual service areas that collectively contribute to the Council's wider objectives.
- 13 Overlaid on these 11 key assurance areas are two further components of the framework:
- Organisational risks
  - Organisational objectives
- 14 The risks considered for audit planning are those set out in the Council's Strategic Risk Register (SRR). There are many other risks associated with the wide range of services the Council delivers. However, the risks on the SRR are those considered most significant to the achievement of the Council's objectives. There are currently 14 risks on the SRR. Where appropriate, service risks are considered as part of individual audit assignments.
- 15 The Council's organisational objectives are expressed in its 2024-27 Council Plan as ambitions. There are four ambitions covering economic

growth, health and wellbeing, communities and delivering best value. Each of these ambitions have a number of priorities which reflect how the Council expects to meet the ambitions.

- 16 The audit workplan will be developed by looking to have appropriate coverage across all 11 of the key assurance areas where we require information to enable us to provide the annual opinion. In deciding what work is a priority in each area, we also consider which audits will also provide coverage of strategic risks and corporate ambitions and priorities.

## Key assurance areas



### Key assurance areas: an overview and examples

- 17 Details of the 11 key assurance areas are set out below. We have provided definitions, and some examples of arrangements, systems, and processes we could review under each area. The examples are for illustrative purposes and are not exhaustive. Some audit work will likely cut across a number of the key assurance areas.

### Strategic planning

- 18 Strategic planning covers the arrangements the Council has in place to define and develop its strategy, or direction, and make decisions on resource allocation to successfully pursue this strategy. It also encompasses the control measures in place to guide strategy implementation. The Council's strategy and policy framework are comprised of the Council Plan, and other key plans and policies which give effect to the strategies.
- 19 This area is of importance to internal audit as effective strategic planning is a prerequisite for delivering long term, sustainable success.

### Examples

- |  |                  |
|--|------------------|
| ▲ Social care delivery and commissioning | ▲ Climate change |
| ▲ Housing development                    | ▲ Local planning |

### Organisational governance

- 20 Governance is the combination of processes and structures implemented to inform, direct, manage and monitor the activities of the Council toward the achievement of its objectives. At its most visible, governance involves the set of policies put in place for the direction and control of the organisation and the establishment of rules and procedures for making decisions and for complying with relevant legislation and regulations. Governance also encompasses business ethics, leadership, strategic management, and control activities. In a local authority context, the principles of effective governance are set out in the CIPFA / Solace 2016 Delivering Good Governance in Local Government: Framework.
- 21 Internal audit is expected to assess and make appropriate recommendations to improve the Council's governance processes. It is also expected to evaluate risk exposures relating to compliance with laws, regulations, policies, procedures and contracts.

### Examples

- |                             |   |
|-----------------------------|---|
| ▲ Adherence to Constitution | ▲ Council companies and other commercial operations |
|-----------------------------|---|

▲ Policy framework

▲ Democratic governance

**Financial governance**

- 22 Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "... *make arrangements for the proper administration of their financial affairs...*". Financial governance involves arrangements for giving a reliable account of the money spent and income received, stewardship of public resources, compliance with legal and regulatory requirements, ensuring value for money, supporting effective decision-making, and facilitating planning and resource allocation.
- 23 The PSIAS require that internal audit evaluates the adequacy and effectiveness of controls relating to the reliability and integrity of financial information.

**Examples**

▲ Income collection &amp; debt management

▲ Benefits and Council Tax support systems

▲ Financial resilience

▲ Ordering and creditor payments

**Risk management**

- 24 Risk management encompasses the Council's arrangements for identifying, assessing, managing, and controlling potential events or situations to provide reasonable assurance that its objectives will be achieved. It involves being aware of risk exposures, selecting appropriate risk responses that align risks with the Council's risk appetite, and communicating relevant information in a timely manner across the organisation.
- 25 Internal audit's role is to evaluate the effectiveness of risk management processes and contribute to their improvement.

**Examples**

▲ Risk management processes

▲ Health and safety

▲ Insurance

▲ Disaster recovery

**Information governance**

- 26 Information governance is the set of multi-disciplinary structures, policies, procedures, processes, and controls implemented to manage information across the Council. These governance arrangements should support the Council's immediate and future regulatory, legal, risk, environmental and operational requirements.

### Examples

- |                          |                                  |
|--------------------------|----------------------------------|
| ▲ UK GDPR compliance     | ▲ Records management             |
| ▲ Data breach management | ▲ Rights of individuals requests |

### Performance management and data quality

- 27 Performance management refers to the systematic process by which the Council plans, monitors, and improves the delivery of the services it provides to the public. The starting point for performance management is the Council's strategic ambitions which then filter down the organisation to directorate, service, team and individual levels. The Council's performance management framework aims to join up delivery at all levels by setting clear, achievable targets which can be accurately monitored and reported, with corrective action being taken promptly and appropriately.

### Examples

- |                                  |                       |
|----------------------------------|-----------------------|
| ▲ Performance framework          | ▲ Data quality        |
| ▲ Service performance management | ▲ Follow-up processes |

### Procurement and contract management

- 28 Effective procurement and contract management is vital for any local authority to ensure that it maximises value for money in its service delivery. Every procurement process undertaken by the Council needs to comply with the provisions of its Constitution (including the Contract Procedure Rules) and the objectives set out in its Procurement Strategy. Public sector procurement also needs to comply with the Public Contracts Regulations and with any changes introduced by the new Procurement Act 2023 which is expected to come into force on 24 February 2025.
- 29 Once a procurement exercise is completed and the contract begins, it is essential that it is monitored regularly to ensure compliance with its terms and conditions, to manage delivery risk, and to assess performance.

### Examples

- |  |  |
|--|--|
| ▲ Individual procurement exercises         | ▲ Individual contract management reviews   |
| ▲ Compliance with contract procedure rules | ▲ Category management and forward planning |

### People management

- 30 This area covers all aspects of the management of human resources across the Council. For example, recruitment and selection, remuneration, attendance management, training and talent development, individual performance management, equal opportunities, welfare and industrial relations, working arrangements, and discipline.



- 31 The Council's people are essential to the achievement of its objectives, and there are a wide range of potentially significant risks in this area.

#### Examples

- |  |                             |
|--|-----------------------------|
| ▲ Succession planning                  | ▲ Performance management    |
| ▲ Equalities, diversity, and inclusion | ▲ Recruitment and retention |

#### Asset management

- 32 Asset management involves the proper management, safeguarding and recording of assets. It seeks to align the asset base with the Council's corporate ambitions and objectives. Key areas for effective asset management include strategic planning, maintenance of accurate records, an understanding of the physical location of assets, allocated responsibility for assets, and periodic and systematic physical verification of the existence, condition, and performance of assets.
- 33 Ensuring the safeguarding of assets is one of five key risk areas that the PSIAS require internal audit to evaluate when providing assurance on the adequacy and effectiveness of the Council's risk management arrangements.

#### Examples

- |                                |                                       |
|--------------------------------|---------------------------------------|
| ▲ Verification of assets       | ▲ Asset repair and maintenance        |
| ▲ Commercial property strategy | ▲ Acquisition, transfer, and disposal |

#### Programme and project management

- 34 Programmes are a collection of related projects managed in a coordinated way. This can bring benefits and control over and above what is achievable from managing projects individually. Projects are discrete, clearly defined, shorter-term engagements, involving the application of processes, methodologies, and specific/cross-functional skills and methodologies to achieve specific and measurable outcomes.
- 35 Effective project management is important for the Council to ensure resources are used efficiently and to achieve value for money. This is particularly the case for large and high-profile projects that bring about significant change. Internal audit is expected to evaluate risk exposures relating to the effectiveness and efficiency of Council programmes and projects.

#### Examples

- |  |                                 |
|--|---------------------------------|
| ▲ Project management framework review / compliance | ▲ Individual review of projects |
|--|---------------------------------|

▲ Partnerships

▲ Project governance and risk management

### IT governance

- 36 Information technology (IT) governance is a sub-discipline of organisational governance. It relates to leadership, organisational structures, policies, and processes that ensure that information technology supports Council strategies and objectives. IT governance should also support the management and oversight of the Council's business as usual activities.
- 37 The PSIAS require internal audit to assess whether information technology governance supports the council's strategies and objectives.

### Examples

▲ Cybersecurity

▲ IT infrastructure

▲ Strategies and policies

▲ IT systems development

## Questions for the committee to consider



- 38 As part of our preparations for the audit work programme for 2025/26, the Committee is invited to express a view on any areas it feels should be considered a priority for internal audit work. In considering this, relevant questions may include the following:
- ▲ For any of the Council's strategic risks, are there any which the Committee would like internal audit to look at, to provide additional assurance about arrangements for the management of the risk?
  - ▲ What are the most significant threats to the achievement of the Council's objectives and priorities?
  - ▲ Are there any of the 11 key assurance areas which the Committee feels internal audit should pay particular attention to, and to provide additional comfort that arrangements are operating effectively?
  - ▲ Are there any specific elements within the 11 key assurance areas that the Committee would like internal audit to look at during 2025/26?
  - ▲ Irrespective of the assurance areas, risks and Council priorities, does the Committee have any specific suggestions for internal audit assignments in 2025/26?

## Next steps



- 39 Following consultation with the Committee we will hold further discussions with officers to understand their views on the priorities for internal audit work over the next year. These meetings will take between December 2024 and February 2025.
- 40 Alongside this we will continue to take account of emerging issues relevant to the public sector as well as any specific sectoral risks or developments including any relevant changes to legislation. We will also continue to review Council committee papers and other relevant background information to ensure we have an up-to-date picture of the challenges and issues facing the Council.
- 41 Information collected will be used to develop the indicative long list of audits to be included in the 2025/26 internal audit work programme. This will be brought to the Committee for approval in March 2025.
- 42 Our risk assessment and the programme of work will continue to be updated and revisited throughout the year to ensure audit work continues to target priority areas.

# THE OPINION FRAMEWORK

1

### The Audit Universe

The audit universe represents all areas across the council that Veritau has identified as being auditable. The universe is broadly structured as follows:

- ▲ Corporate and cross-cutting
- ▲ Key financial systems
- ▲ Service areas
- ▲ ICT and technical

2

### 11 Key Assurance Areas

- |   |                                     |
|---|-------------------------------------|
| Strategic Planning                      | Procurement and contract management |
| Organisational governance               | People management                   |
| Financial governance                    | Asset management                    |
| Risk management                         | Programmes and project management   |
| Information governance                  | IT Governance                       |
| Performance management and data quality |                                     |

3

### Key Corporate Risks

- ▲ Balanced budget
- ▲ Children's social care
- ▲ Adult's social care
- ▲ Unlawful decisions
- ▲ Serious accident / death
- ▲ Recruitment / retention
- ▲ Cyber security
- ▲ Corporate governance
- ▲ Middlesbrough Development Corporation (impact)
- ▲ Failed partnerships
- ▲ Children's safeguarding
- ▲ Transformation
- ▲ Middlesbrough Development Corporation (governance)
- ▲ Social cohesion and democratic resilience



Having evaluated all potential audits against the opinion framework in steps 1 to 4, audits are prioritised for inclusion in the internal audit work programme.

### Internal Audit Work Programme

5

- ▲ Council ambitions are fully documented in the 2024-2027 Council Plan.
- ▲ There are four ambitions including economic growth, health and wellbeing, communities, and delivering best value.

### Council Ambitions

4



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<b>MIDDLESBROUGH COUNCIL</b>	
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<b>Report of:</b>	Head of Internal Audit, Veritau
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<b>Submitted to:</b>	Audit Committee
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<b>Date:</b>	12 December 2024
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<b>Title:</b>	Internal Audit and Counter Fraud Progress Report
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<b>Report for:</b>	Information
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<b>Status:</b>	Public
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<b>Council Plan priority:</b>	Delivering Best Value
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### Executive summary

This report provides the committee with:

- an update on internal audit and counter fraud work undertaken.

## 1. Purpose

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

## 2. Recommendations

2.1 That the Audit Committee

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

## 3. Background and relevant information

3.1 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.

3.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.

3.3 Fraud is a significant risk to the public sector. Annual losses are estimated as being as high as £59 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.

3.4 The purpose of this report is to provide an update on internal audit and counter fraud work carried out in 2024/25. The Council's internal audit and counter fraud work programmes were approved by this Committee in July 2024.

**Internal Audit Progress report**

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

**Counter Fraud Progress report**

3.6 The counter fraud progress report is contained in appendix 2. A range of work is detailed including activity to promote awareness of fraud, work with external agencies, and the result of investigative work undertaken for the Council.

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

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

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

<b>Topic</b>	<b>Impact</b>
Financial (including procurement and Social Value)	There are no specific impacts or implications.
Legal	There are no specific impacts or implications.
Risk	There are no specific impacts or implications.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no specific impacts or implications.
Climate Change / Environmental	There are no specific impacts or implications.
Children and Young People Cared for by the Authority and Care Leavers	There are no specific impacts or implications.
Data Protection	There are no specific impacts or implications.

**Appendices**

1	Internal Audit Progress Report December 2024
2	Counter Fraud Progress Report December 2024



## Background papers

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

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# Internal Audit Progress Report 2024/25

Date: 12 December 2024

APPENDIX 1

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## BACKGROUND

- 1 Internal audit provides independent and objective assurance and advice about the council's operations. It helps the organisation to achieve its overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.
- 2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), CIPFA guidance on the application of those standards in Local Government and the CIPFA Statement on the role of the Head of Internal Audit.
- 3 In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan (the work programme) agreed by the Audit and Governance Committee, and to identify any emerging issues which need to be brought to the attention of the committee.
- 4 The internal audit work programme was agreed by this committee in July 2024.
- 5 Veritau has adopted a flexible approach to work programme development and delivery. Work to be undertaken during the year is kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the council.
- 6 The purpose of this report is to update the committee on internal audit activity up to 30 November 2024.



## INTERNAL AUDIT PROGRESS

- 7 A summary of audits underway and those finalised in the year to date, is included in annex A. Annex A also details other work completed by internal audit during the year.
- 8 The work programme, showing current priorities for internal audit work, is included at annex B. Alongside the work in the 'do now' and 'do next' categories are indicative timescales for when work commenced or is expected to commence, and projected dates for final reports to be produced. These timescales may be subject to change, for example if work priorities change as a result of ongoing risk assessment and work planning.
- 9 The programme includes several audits in the 'do later' category. The internal audit work programme is designed to include all potential areas that should be considered for audit in the short to medium term, recognising that not all of these will be carried out during the current year (work is deliberately over programmed).

- 10 It is likely that most audits in the 'do later' category will now be considered for commencement at the beginning of 2025/26. These audits along with any other new or emerging priorities will be considered as part of the planning process for the 2025/26 internal audit work programme.
- 11 Annex C provides details of the key findings arising from internal audit assignments completed, that we have not previously reported to the committee.
- 12 We have introduced a new specification and report format for 2024/25 and reviewed our definitions for action priorities and overall assurance levels. Annex D lists our new definitions.

## FOLLOW UP

- 13 All actions agreed with services as a result of internal audit work are followed up to ensure that issues are addressed. As a result of this work we are generally satisfied that sufficient progress is being made to address the control weaknesses identified in previous audits. A summary of the current status of follow up activity is included at annex E.

## ANNEX A: INTERNAL AUDIT WORK IN 2024/25

### Audits in progress

Audit	Status
Payroll	Draft report issued
Procurement	Draft report issued
Treasury management	Ongoing
Information governance	Ongoing
Commercial property income	Ongoing
VAT accounting	Ongoing
Procurement cards (follow-up)	Ongoing
Teesside Pension Fund – investments	Ongoing
Domestic abuse	Ongoing
Risk management	Ongoing
Homelessness	Ongoing
Server Admin (IT)	Ongoing
Schools themed audit (budget management and supply teachers)	Ongoing
Anti-social behaviour management	Ongoing
Council Tax and NNDR	Ongoing

### Final reports issued

Audit	Reported to Committee	Opinion
Public health governance	August 2024	Reasonable Assurance
Main accounting	August 2024	Substantial Assurance
Benefits and Council Tax Support	August 2024	Substantial Assurance
Health and safety	August 2024	Substantial Assurance
Creditors	August 2024	Substantial Assurance
Schools themed audit (business continuity)	October 2024	Reasonable Assurance
Teesside Pension Fund – administration	October 2024	Substantial Assurance
Use of residential care	October 2024	Reasonable Assurance

Continuing healthcare	October 2024	Reasonable Assurance
Early years funding	October 2024	Reasonable Assurance
Direct payments	December 2024	Limited Assurance
Social care transitions	December 2024	Reasonable Assurance
IT asset management	December 2024	Substantial Assurance
Agency staff (Children's Services)	December 2024	No opinion given

### Other work in 2024/25

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

- ▲ A review of returns completed by the Council for the Supporting Families scheme.
- ▲ A review of grant claims including those relating to:
  - ▲ Trading standards
  - ▲ Tees Valley Combined Authority / Local Transport Plan
  - ▲ Middlesbrough Mela
  - ▲ High Street Heritage Action Zone
  - ▲ Children's Services Practice Improvement
  - ▲ Homes England
  - ▲ Traffic Signals Obsolescence
  - ▲ Bus Service Operators
- ▲ An annual review of a number of trust funds administered by the Council
- ▲ A review of effectiveness of arrangements in place to manage subcontractor systems and controls in relation to Middlesbrough Council's Community Learning Service (MCLS).



## ANNEX B: Current priorities for internal audit work

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Corporate &amp; cross cutting</b>			
<b>Category 1 (do now)</b>			
Procurement cards	Ongoing.	September 2024	March 2025
Procurement	Draft report issued.	March 2024	March 2025
Information governance including FoI	Fieldwork complete.	February 2024	March 2025
Risk management	Ongoing.	September 2024	March 2025
Transformation programme	The Council's transformation programme is being considered as part of all ongoing/planned work.	Ongoing	Ongoing
Members allowances and	Planning underway / due to start in December.	December 2025	July 2025

<sup>1</sup> This is the expected date the audit findings will be included in reports to the Audit Committee. The report will potentially be finalised sooner than this, and the date of issue will be included when reported to the Audit Committee.

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
declarations of interest			
Partnerships	Planning underway / due to start in January.	January 2025	July 2025
<b>Category 2 (do next)</b>			
Savings plans and delivery	The Council has significant budget pressures and has agreed a further set of savings plans including as part of the Transformation programme. The audit will review progress against these plans and the reasonableness of assumptions made in calculating savings and is likely to focus on Children's and Adult's Services.	Q4 2024/25	July 2025
Business continuity	Business continuity is a key tool to mitigate risks arising from unexpected changes in the external environment, for example increasing cybersecurity threats, supply chain issues resulting from global political activity and potential climate and energy related events. This area has not been audited for some time and will commence following the risk management audit.	Q4 2024/25	July 2025
<b>Category 3 (do later)</b>			
Decision making and Council governance	The Council has had several governance related issues in recent years which have been reviewed by internal audit. We will allocate time to review any emerging issues and to ensure previously agreed actions have been implemented.		
Financial resilience	The Council's financial position remains critical. This will build on and accompany work carried out on savings plans and the wider transformation programme.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Recruitment and retention	Recruitment and retention is a key corporate risk for the Council.		
Succession planning	The Council has had a significant turnover of senior officers in recent years. An audit would review the new People Strategy and the Council's succession plans.		
Information security	Considered high risk due to external threats and the continuing pace of technological change. Risks may also have changed as a result of the office move to Fountains Court.		
Corporate complaints	Essential for effective governance. This area has not been audited for some time. The Council's corporate complaints policy was agreed in 2022 and is due for review in 2025.		
Performance management	A key assurance area reflecting its significant contribution to the achievement of the Council's objectives.		
Health and safety	Health and safety is a key corporate risk for the Council. An audit was carried out during 2023/24 concentrating on premises risk assessments and this audit would review other areas within corporate health and safety.		
Procurement	Current work is ongoing, however further work may be carried out during the year including an assessment of preparedness for the new Procurement Act.		
Asset management (including asset maintenance)	Effective use of assets is a key priority for the Council and is one of our key assurance areas. The audit may review sale of Council assets which has been an area of concern for the Council in recent years.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Financial / Corporate systems</b>			
<b>Category 1 (do now)</b>			
Treasury management	Fieldwork complete.	November 2023	March 2025
VAT accounting	Fieldwork is on hold due to HMRC review.	TBC	TBC
Payroll	Draft report issued.	May 2024	March 2025
Teesside Pension Fund – Investments	Planning is underway.	December 2024	July 2025
Council Tax and NNDR	Planning underway / due to start in December.	December 2024	July 2025
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
Income collection	An audit would review the processes involved in collecting income for the Council from the services it provides.		
Main accounting	This is a key financial system and audited regularly.		
Debtors	This is a key financial system and audited regularly.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Benefits and Council Tax Support	This is a key financial system and audited regularly.		
<b>ICT</b>			
<b>Category 1 (do now)</b>			
IT server administration and security	Ongoing.	October 2024	March 2025
<b>Category 2 (do next)</b>			
<b>Category 3 (do later)</b>			
IT – email security	Email security is key to preventing and protecting council data and ensuring it is transferred securely. It is also vital for cyber security and protecting against phishing attacks and the threats from malware and ransomware. This has been identified as a priority for audit in discussion with IT managers.		
IT – malware protection	This is a vital aspect of cyber security, to maintain security of data, system performance and availability and maintaining business continuity. This audit will cover areas not already covered by the above audits and, taken together, will provide thorough assurance on cyber risk. This has been identified as a priority for audit in discussion with IT managers.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
<b>Operational audits</b>			
<b>Category 1 (do now)</b>			
Commercial property income	Fieldwork complete.	March 2024	March 2025
Domestic abuse	Fieldwork is underway – there have been delays in receiving the requested information in order to identify a sample.	June 2024	March 2025
Anti-social behaviour management	Fieldwork is due to start in December.	December 2024	July 2025
Homelessness	Planning underway.	January 2025	July 2025
Schools themed audit	Planning underway.	January 2025	July 2025
<b>Category 2 (do next)</b>			
Section 117 after care (mental health services)	Section 117 after care relates to care provided to residents who require mental health care and support following a hospital admission. An audit would look at the controls and risks relating to this.	January 2025	July 2025
Financial assessments (Adult's)	In the context of increasing financial pressure on care services, robust assessments can help the Council to accurately determine charges for care and to work within budget. This area has not been reviewed for some time.	Q4 2024/25	July 2025

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Home to school transport	This is an increasing area of spend and risk area for the Council.	Q4 2024/25	July 2025
<b>Category 3 (do later)</b>			
Commissioning and contract management (Adult's)	Commissioning and contract management is a key risk area for the Council and includes significant levels of expenditure.		
Reablement	The Council's reablement team helps to provide support to residents with care needs to support themselves in their own homes. The Council's transformation programme intends to expand this provision.		
Legislative changes (ASC) including Liberty Protection Safeguards	An audit would review the Council's approach and preparedness to legislative changes including those relating to Liberty Protection Safeguards.		
Climate change	Climate change is a significant risk and priority for all local authorities. An audit would consider key risks including those relating to energy management.		
Foster carers	The Council is part of a collaborative partnership with 11 other local authorities in the North East. It also intends to expand the in-house fostering capability as part of the transformation programme.		
Inclusion strategy	The Council has an Inclusion Strategy 2022-2025 and an audit would review the effectiveness of the implementation of the strategy.		

Audit / Activity	Rationale / Comments on progress	Actual / Expected start	Expected finish <sup>1</sup>
Housing development	A review of the arrangements to regenerate housing provision in Middlesbrough.		
Planning applications	Planning applications can be a contentious area within local government an audit would provide assurance that the Council is complying with legislative requirements and is suitably transparent.		



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

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
Social care transitions	Reasonable Assurance	Transition processes, ensuring support for children, effective communication between the children's and adult's teams.	24 September 2024	<p>Guidance is not fully disseminated to staff.</p> <p>Data is not stored effectively in an overall database.</p>	<p>A number of initiatives will be carried out including development days, staff presentations and attendance of senior staff at team meetings.</p> <p>Documents will be clearly stored in new folders on the service's file storage area; a tracker spreadsheet will be created; a data cleansing exercise will be carried out.</p>
IT asset management	Substantial Assurance	Asset inventories, policies and procedures for information media storage, redistribution of assets	17 October 2024	Procedures and controls are working well.	No significant actions agreed.
Agency staff (Children's Services)	No opinion given	Policies and procedures, pre-employment checks, monitoring and review of agency workers.	25 November 2024	There is no formal policy for the management of agency staff.	Guidance has been produced and circulated.

System/area	Opinion	Area reviewed	Date issued	Comments / Key issues identified	Management actions agreed
				<p>The documentation does not justify the decision for the use of agency staff.</p> <p>Not all pre-employment checks made by agencies had been checked and verified.</p> <p>Timesheets are not always authorised in a timely manner.</p> <p>A number of agency staff had been engaged for longer than 12 months.</p> <p>Monitoring of agency staff usage and cost is inconsistent.</p>	<p>The documentation now includes this.</p> <p>All checks have now been completed.</p> <p>Guidance has been produced and weekly non-compliance reports have been produced.</p> <p>A transformation programme project will look at strategies to reduce reliance on agency staff.</p> <p>Monitoring will now take place regularly at Directorate Management Team meetings.</p>
Direct payments	Limited Assurance	Guidance notes, accuracy of payments, monitoring of direct payments.	27 November 2024	See further information below.	See further information below.

## ADDITIONAL DETAILS FOR DIRECT PAYMENTS AUDIT

Finding	Priority	Agreed Action	Responsible Officer	Timescale
1) The Council is failing to comply with legislative requirements (in relation to the review of direct payments)	Critical	Additional agency social work staff will be recruited to assist established teams to complete overdue reviews.	Head of Specialist and Lifelong Services	31 December 2024
		An implementation plan will be put in place to address the backlog of 102 overdue reviews.	Head of Specialist and Lifelong Services	Implemented
		The outstanding 102 annual reviews will be completed.	Head of Specialist and Lifelong Services	31 May 2025
		A plan will be put in place to ensure that all new direct payment cases going forward have an initial 6 month review and all new and ongoing cases have a 12 month review thereafter.	Head of Specialist and Lifelong Services	31 January 2025
		A dip sample of 10% of new direct payment cases will be audited by the service each month over the 12 month period to check the process is being followed.	Head of Specialist and Lifelong Services	30 November 2025
2) Direct payments are not being regularly monitored to ensure that payments are being spent appropriately and	Critical	A rectification plan has been put in place to look at the outstanding cases, which has significantly reduced in volume since the audit. All cases will be reviewed within 12 months moving forward.	Head of Resident and Business Support	Implemented

Finding	Priority	Agreed Action	Responsible Officer	Timescale
that the provision is still required.		In respect of direct payments, any such awards are paid 4 weekly, in advance. Revisions to working practices will be made in order to more easily identify accounts with large balances and action taken as necessary.	Head of Resident and Business Support	Implemented
		Refresher training has been delivered in respect of direct payment monitoring and the agreed standards. Monthly manager checks will be undertaken to ensure the quality of such monitoring and that this has improved to the required standards. Work will also be undertaken to identify if it is an option to auto populate some fields or alternatively, make such fields a mandatory requirement when carrying out these checks.	Head of Resident and Business Support	Implemented
3) The Council does not monitor direct payment cases where family members are employed as personal assistants for fraud.	Significant	Direct payment guidance has been updated to reflect current legislation and amended to reflect that family members living in the same house cannot be employed as a personal assistant unless in exceptional circumstances.  An exceptions form has been developed that must be completed if the request is to pay someone living in the same household.	Head of Specialist and Lifelong Services	Implemented

Finding	Priority	Agreed Action	Responsible Officer	Timescale
4) Direct payments application forms and agreement documents do not inform the legal consequences of mispending the funds provided for their support plans.	Moderate	<p>Direct payment guidance will be amended so that staff are aware of their duty to inform the person of the legal implication of mis-using their Direct Payment.</p> <p>A paragraph will also be added to the Direct Payment Agreement document informing the person of their legal responsibilities</p>	Head of Specialist and Lifelong Services	Implemented

## ANNEX D: AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

### Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No assurance	Overall, there is a fundamental failure in control and risks are not being effectively

### Priorities for findings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes, but the system objectives are not exposed to risk.

## ANNEX E: FOLLOW UP OF AGREED AUDIT ACTIONS

### Actions completed

A total of 16 actions have been completed since the last report to this committee in October.

Actions agreed		Actions agreed by directorate					
Priority of actions	Number of actions agreed	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
Critical	1	0	0	0	1	0	0
Significant	8	6	1	0	1	0	0
Moderate	6	1	3	0	2	0	0
Opportunity	1	0	0	0	1	0	0
<b>Total</b>	<b>16</b>	<b>7</b>	<b>4</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>0</b>

### Actions outstanding

A total of 9 actions with original due dates that have passed are still outstanding. A summary of the priority of these actions is included below.

Actions agreed		Actions agreed by directorate					
Priority of actions	Number of actions agreed	Adult Social Care	Children's Services	Environment and Community	Finance	Legal and Governance	Regeneration
Critical	3	0	0	3	0	0	0
Significant	3	2	0	1	0	0	0

<b>Moderate</b>	3	<b>Moderate</b>	1	0	1	1	0	0
<b>Opportunity</b>	0	<b>Opportunity</b>	0	0	0	0	0	0
<b>Total</b>	<b>9</b>	<b>Total</b>	<b>3</b>	<b>0</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>0</b>

Of the 9 actions outstanding all 7 have had a revised date agreed. The remaining 2 actions are currently being followed up.

### **Actions outstanding for more than 3 months (Critical or Significant)**

Five Critical or Significant actions have currently been outstanding for more than 3 months. Four of these relate to the audit of the Transporter Bridge, details of which have been reported previously to this committee. The actions are operational in nature and will not be dealt with until the bridge is brought back into operation, for which there is no agreed date. We have therefore removed the actions from our normal follow up process.

Details of the remaining action is included in the table below. A revised date has been agreed and we will follow this up when the new implementation date becomes due.

<b>Audit</b>	<b>Priority</b>	<b>Original Date</b>	<b>Revised Date</b>	<b>Finding / Action</b>	<b>Reason for Delay</b>
Burials	Significant	31/12/2022	31/12/2024	A Bereavement Services framework will be produced to include a strategy setting the direction for change and an action plan setting out how that change will be delivered	The service is currently producing the strategy and expects to complete this and the action plan by the end of 2024.



# Counter Fraud Progress Report 2024/25

Date: 12 December 2024

APPENDIX 2

## CONTENTS

- 3 Background
- 3 Counter Fraud Management
- 3 Multi-Agency Work
- 4 Investigative Work



## BACKGROUND

- 1 Fraud is a significant risk to the public sector. The Public Sector Fraud Authority estimated that between £39.8 and £58.5 billion of public spending was lost to fraud in 2021/22<sup>1</sup>. Financial loss due to fraud can reduce a council's ability to support public services and can cause reputational damage.
- 2 Veritau delivers a corporate fraud service to the Council which aims to prevent, detect and deter fraud and related criminality. The counter fraud team investigate allegations of fraud, plan and take part in counter fraud campaigns (eg the National Fraud Initiative), undertake fraud awareness activities with staff and the public, and maintain and update the Council's counter fraud framework and associated policies.
- 3 This report updates the Audit Committee on counter fraud activity in 2024/25.



## COUNTER FRAUD MANAGEMENT

- 4 Veritau leads a counter fraud working group which aims to increase awareness of adult social care fraud by sharing best practice on how to detect, deter, and investigate it. Findings of the group were presented to the National Association of Financial Assessment Officers conference in October.
- 5 The counter fraud team raise awareness of cybercrime each year as part of cybersecurity awareness month in October. With the help of the Council's communication team information about phishing, spear-phishing, and whaling was disseminated. Council employees were encouraged to exercise caution when opening attachments and clicking on links contained in emails. According to Deloitte, 91% of all cyber attacks originate from a phishing email in somebody's mailbox. Members of staff were also made aware that cybercriminals may try to impersonate senior officers within the Council to pressure employees to make payments.
- 6 In 2024/25 the team have raised awareness of the whistleblowing policy amongst all staff and provided sessions specifically for managers on how to address concerns raised by members of their teams. Counter fraud training has also been provided to officers working in adult social care.



## MULTI-AGENCY WORK

- 7 The National Fraud Initiative (NFI) is a large-scale data matching exercise that involves all councils and other public sector bodies in the UK. The work of the NFI is overseen by the Public Sector Fraud Authority (PSFA) and the exercise runs every two years. The counter fraud team ensures that the Council meets government datamatching requirements and best practice.

<sup>1</sup> [Cross Government Fraud Landscape Report 2021-22](#), Public Sector Fraud Authority

Data from council departments has been gathered and securely sent to the PSFA in October. Matches are expected to be returned in late December.

- 8 An annual targeted datamatching exercise by the NFI is also currently underway. All councils are required to send details of residents claiming single person discounts to the NFI which will be used to identify potentially fraudulent claims. Data will be sent by mid-January with matches expected to be returned shortly afterwards.
- 9 Following discussions with the Department for Work and Pensions (DWP) new joint working arrangements are now in place. The counter fraud team began working alongside the DWP in September. Officers from the DWP and the counter fraud team jointly investigate instances of fraud where it affects both organisations. The team are also processing requests from the DWP providing information relevant for their investigation of benefit fraud.

## INVESTIGATIVE WORK

- 10 Between 1 April 2024 and 15 November 2024, the counter fraud team have received 77 referrals of suspected fraud. Twenty-two investigations have been completed this year and there are currently 26 cases under investigation. Eight people have received formal warnings for fraud relating to the council tax reduction scheme, council tax discounts, business rates, and use of blue badges. One person has been referred to the Home Office for possible immigration offences. Financial loss to the Council was identified in a further four investigations and information was provided to the Legal Department in two debt evasion cases.
- 11 Investigative work in 2024/25 has helped identify £83k of loss due to fraud, error and debt evasion. The counter fraud team supports the Council to recover losses identified as part of investigations. Counter fraud savings<sup>2</sup> are tracked by monitoring repayments to the Council and calculating the value of stopping ongoing frauds. To date £136k of counter fraud savings have been identified, which is twice the amount found in 2023/24.

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<sup>2</sup> Counter fraud savings consist of money recovered during the course of the year (debts may have been calculated in previous years as well as the current financial year) and 12 months of savings where an ongoing fraud has been stopped through the work of the counter fraud team.

**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
	Progress report – Mazars	Cath Andrew (Mazars)
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 procurement	L Grabham
	Internal Audit and Counter Fraud progress reports	P Jeffrey
	Progress report – Mazars	Cath Andrew (Mazars)
	Pension Fund Audit Results Reports for both the 2021/22 and 2022/23 audits	Richard Tebbs (EY)
	BV Notice update	A Johnstone
5 December 2024	EY Audit Completion Report	M Rutter
	Letter of Representation on the Accounts from the Director of Finance	M Rutter
	Approval of the Statement of Accounts for 2021/22 and 2022/23	D Middleton
12 December 2024	Forvis Mazars Auditors Annual Report 2023/24 – title may change if it only covers VfM	Cath Andrew (Forvis Mazars)
	Annual Assurance Report on Partnership Governance	A Johnstone
	Direct Payments Audit report	E Scollay
	Treasury Management Mid-Year Review 2024/5	J Weston
	25/26 Internal Audit Consultation Report	P Jeffrey
	Internal Audit and Counter Fraud Progress Reports	P Jeffrey
6 February 2025	Annual Assurance Report on Decision Making	S Lightwing / 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
	Progress report – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Treasury Management overview	Justin Weston
	Mid-year risk update	A Johnstone
Additional meeting may be required	Forvis Mazars – Audit Completion report 2023/24	C Andrew
13 March 2025	Progress against the Corporate Governance improvement plan and the Section 24 report	A Johnstone

	Performance Management	G Cooper
	PPMF assurance report	A Johnstone
	HR Annual Assurance report	N Finnegan
	Internal Audit and Counter Fraud Progress Report	P Jeffrey
	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 – Forvis Mazars	Cath Andrew (Forvis Mazars)
	Counter Fraud Framework and refresh of the Counter Fraud Strategy	J Dodsworth (Veritau)
17 April 2025	Provisional additional meeting date	

**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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