

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 13 March 2025.

PRESENT: Councillors J Ewan (Chair), I Blades, D Branson, D Coupe, I Morrish, G Wilson and L Young

PRESENT BY INVITATION: Councillors

ALSO IN ATTENDANCE: P Jeffrey (Internal Auditor) (Veritau), N Walker (Executive Member for Finance), Andrew (Mazars) and J Dodsworth (Veritau)

OFFICERS: G Cooper, A Johnstone, C Lunn and J Weston

APOLOGIES FOR ABSENCE: Councillors B Hubbard

24/82 **WELCOME AND EVACUATION PROCEDURE**

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

24/83 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor Blades	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund.
Councillor Coupe	Non-Pecuniary	Member of the Board of Directors of Border to Coast.
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund.

24/84 **MINUTES - AUDIT COMMITTEE - 6 FEBRUARY 2025**

The minutes of the Audit Committee meeting held on 6 February 2025 were submitted and approved as a correct record.

24/85 **PROGRAMME AND PROJECT MANAGEMENT FRAMEWORK ASSURANCE**

The Head of Strategy, Business and Customer, presented a report, the purpose of which was to outline the Council's approach to Programme and Project Management (PPM), to summarise 2024/25 activity and planned developments for 2025 and beyond, and to provide the Committee with assurance that the Council had robust PPM arrangements in place which supported delivery of the Council's priorities and ambitions.

The Committee was appraised of the Corporate and Transformation project portfolios that made up the PPM framework, and the progress that had been achieved to date.

Members noted the improvements that had been achieved in respect of the Transformation Programme and wished to place a note on record to congratulate the officers for this work.

During discussion, the Committee considered the role of the PPM framework in terms of both achieving financial savings and delivering improvements, the latter of which would be the next step. Members discussed reporting measures and the roles of the Audit Committee and scrutiny function in this regard.

The Chair thanked the Head of Strategy, Business and Customer, for the information provided.

AGREED as follows:

1. That the internal audit opinion that robust arrangements were in place to govern programme and project management within the Council was noted.
2. That the project delivery performance against Corporate and Transformation projects during 2024/25 was noted.
3. That the effective establishment of the Transformation Portfolio and associated governance arrangements in 2024/25 was noted.
4. That the improvements delivered during 2024/25 were noted.
5. That plans to further improve and strengthen programme and project management, including the implementation of a Centre of Excellence model, were noted.
6. That officers be congratulated for their work in respect of the above.
7. That the information, as presented, was noted.

24/86

AUDIT COMMITTEE REVIEW OF EFFECTIVENESS

The Internal Auditor from Veritau presented a report of the Director of Finance and Transformation, the purpose of which was to provide Members with information relating to the benefits of conducting a review of the Committee's effectiveness, and the options for undertaking such a review.

It was explained that the latest guidance on Audit Committees in Local Government, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, recommended that Committees should complete a periodic self-assessment of their effectiveness. Alternatively, an independent review could be undertaken. The guidance included a checklist to support the self-assessment, enabling the Committee to highlight the areas where it had made an impact on the Council's governance, risk management, control and audit arrangements. This Committee had not undertaken any assessment against this guidance.

It was recommended that the Committee complete an assessment against the guidance, either through a facilitated self-assessment that would be led by Veritau, or through an independent commissioned review.

The outcomes of this exercise would help to support the preparation of the Audit Committee's future work programme, training plans and the annual report. The exercise may also identify areas requiring changes or improvements in the Committee's method of working, or in how it communicated its activities to the Council's leadership and wider public.

Members' support was sought for completion of a review of the Committee's effectiveness, and direction on the form and timing of the review. Options for the method for undertaking the review were:

- Self-assessment (whole Committee);
- Self-assessment (Member working group); or
- External review.

The Committee discussed the proposals and the pros and cons associated with the different methods for undertaking the review. Consideration was given to the public availability/copyright status of the CIPFA guidance document(s); closed versus open session review work; small group versus larger group activity; and whether any support could be provided by the Local Government Association (LGA).

The Chair requested that the CIPFA guidance document(s) be circulated to the Committee Members for information; the Head of Corporate Finance would action this.

Following discussion, the Committee approved the principles of conducting a self-assessment, but officers would need to undertake a further options appraisal as to how the review would be conducted. It was agreed that this matter would be deferred to the next scheduled meeting, 17 April 2025, for final consideration and approval.

The Chair thanked the Internal Auditor and the officers for the information provided.

AGREED as follows:

1. That the Head of Corporate Finance would circulate the CIPFA guidance document(s) to the Committee Members.
2. That the principles of conducting a self-assessment were approved.
3. That this matter be deferred to the 17 April 2025 meeting for final consideration and approval. In the interim, officers would undertake a further options appraisal as to how the review could be conducted, for consideration at that meeting.
4. That the information, as presented, was noted.

24/87

PROGRESS REPORT - FORVIS MAZARS - VERBAL UPDATE

The Auditor from Forvis Mazars provided Members with the following progress update:

Middlesbrough Council

- The 2023/24 accounts were signed off on 28 February 2025 (statutory backstop date), with a disclaimer of opinion.
- A copy of the auditor's annual report had been shared with officers, which included the auditors' VFM commentary.
- The auditors were currently awaiting guidance on the procedures for the rebuilding of assurance and would communicate what this meant for the Council's future audits once they had received it.

Teesside Pension Fund

- The 2023/24 accounts were signed off on 28 February 2025 (statutory backstop date), with a disclaimer of opinion. The wording for this explained this was due to assurance needed on level 3 investments and the (associated) change in market value of investments.
- Due to the 2022/23 accounts being signed off and the work the auditors had completed on the 2023/24 accounts, they were better placed to rebuild assurance on the outstanding areas in 2024/25 to gain assurance over opening balances. The auditors were currently coordinating their delivery plan and would communicate this to officers once it had been finalised.

The Committee discussed the work that had been undertaken in concluding the audit work, together with the procedures involved in formally publishing the outcomes. Reference was made to the number of disclaimed authorities, 216, across the country, together with Middlesbrough's performance in relation to other Local Authorities in the Tees Valley. Although Middlesbrough was the only authority with a disclaimed opinion for year ended 2022/23, all were in the same position for 2023/24. The Head of Corporate Finance would circulate further statistics in relation to other Local Authorities, together with other previously requested information, i.e. correspondence to/from MHCLG, to the Committee Members.

The Chair thanked the Auditor and officer for the information provided.

AGREED as follows:

1. That the Head of Corporate Finance would circulate further statistics in relation to other Local Authorities, together with the other previously requested information, i.e. correspondence to/from MHCLG, to the Committee Members.
2. That the information, as presented, was noted.

24/88

PRUDENTIAL INDICATORS AND ANNUAL TREASURY MANAGEMENT STRATEGY - 2025/26

The Head of Corporate Finance presented a report of the Director of Finance and Transformation, the purpose of which was to:

- Provide an update on the strategic approach in relation to the Council's borrowing, investments, and cash-flow for the 2025/26 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It was to be read in conjunction with the Treasury Management mid-year

review 2024/25, reported to Members on 12 December 2024.

- Provide the Prudential Indicators approved by Council for the 2025/26 financial year in accordance with the CIPFA Code of Capital Finance, which was best practice in terms of governance in this area.
- Provide information on the Treasury Management Strategy; the position on Capital Financing and Prudential Indicators, and whether these were contributing to the effective management of the Capital Programme and the resources allocated to pay for these, as part of the revenue budget process.

The report detailed:

- Capital expenditure and financing for 2025/26.
- The Council's overall borrowing requirement.
- Treasury position at the start of 2025/26.
- Summary of the Treasury Management Strategy agreed for 2025/26.

A copy of the Prudential Indicators and Annual Treasury Management Strategy 2025/26 were shown at Appendix 1 of the report.

During discussion, the following points were raised:

- This activity was concerned with building the knowledge and experience of Committee Members in a complex, but important area. It was key for Members to contribute to the draft set of Prudential Indicators and provide commentary associated with that.
- In response to a query regarding a training session for Members, it was explained that this would be offered post-AGM in June 2025, at the start of the budget process.
- A Member referred to the Public Works Loan Board (PWLb) and queried the 85% of total debt that the Council had in respect of this. In response, it was explained that most Local Authorities borrowed long-term from the PWLB because it was more stable than a bank or building society, and interest rates were generally lower. There was a period in the early 2000s when banks offered lower interest rates, but this was no longer the case – mainly after the financial crash of 2008.
- In relation to the cost of capital financing and the 10% threshold, Members were advised that a number of Local Authorities had exceeded that amount. Some were around 20-25% and there was no restriction placed on it, other than from an affordability perspective. It was explained that as the authority approached the 10% limit, this was not something that would be surpassed without endorsement from the Chief Finance Officer. Consideration was given to different example amounts and what this could potentially look like for the authority if the 10% threshold was passed. The Executive Member for Finance reassured the Committee that, at the present time, there had been no discussion to extend beyond the 10% threshold, but that level was being approached.
- In response to a query regarding short term borrowing, Members were advised that this would only be pursued if rates were considerably lower than those of longer term borrowing; banks would not be a good credit risk.
- A Member queried whether the Council borrowed on a short term basis from reserves. In response, it was explained that this was not the case because the Council invested money into those. As an overall net borrower, net income needed to be spent at certain time periods. Reference was made to the CIPFA code and the importance of the security of investments over the interest rate offered.

The Chair thanked the Head of Corporate Finance for the information provided.

NOTED

24/89

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT

The Internal Auditors from Veritau presented a report, the purpose of which was 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.
- Provide Members with an update on the new Global Internal Audit Standards and the

approach to adopting them.

The Internal Audit Progress Report was shown at Appendix 1. This included a summary of current work in progress, internal audit priorities for the year, completed work, and follow-up of previously agreed audit actions.

It was explained that from 1 April 2025, internal audit teams in the public sector would be working to new internal audit standards. These would be a combination of the new Global Internal Audit Standards (GIAS) and the "Application Note, Global Internal Audit Standards in the UK Public Sector" published by CIPFA. Whilst 1 April 2025 was the effective date for the new standards, internal audit teams would not be expected to demonstrate full conformance on this date. Moreover, teams were to start working in accordance with the new standards from this date and, by doing so, build up their conformance over time.

To conform with the new standards, the audit charter and audit manual were being updated, and training would be provided to staff. Working practices would also be reviewed to ensure that they complied with the standards. It was anticipated that an updated audit charter would be presented at the July 2025 Audit Committee meeting, along with an update on actions to achieve conformance.

The Counter Fraud Progress Report was shown at Appendix 2. A range of work was detailed, which included activity to promote awareness of fraud, work with external agencies, and the result of investigative work undertaken for the Council.

The Committee was appraised of the work and progress being achieved, with particular attention being drawn to Appendices A-E of the submitted report.

During discussion, Members raised several points, as follows:

- A Member referred to Annex B and queried the schools audit detailed on page 10. In response, it was explained that this referred to budget management and supply teachers.
- A Member referred to the misuse of blue badges and felt that this matter should be reviewed annually. It was queried how many instances of this had occurred. In response, it was indicated that on the inspection date, 38 badges were checked, with one being investigated further.
- A Member referred to the audit of buses and queried what this referred to. In response, it was explained that the audit focused on bus service operators/department for transport, and the assurance of Council expenditure in relation to those.
- A Member referred to page 73 and the action outstanding for over three-months in respect of the Transporter Bridge. The Member commented that this had been raised at the Corporate Health and Safety Committee. In response, the Head of Policy, Governance and Information explained that this matter should be explored via the Council's scrutiny function; the Member would raise this at a future Place Scrutiny Panel meeting.
- The Chair referred to the four reports that were to be finalised this quarter, prior to March 2025, and queried whether the reports could be circulated to the Chair and Vice-Chair. The Auditor agreed that these could be supplied.
- The Chair referred to page 66 of the report and the Treasury Management audit. It was queried whether the expected reporting date of July 2025 was correct. In response, it was explained that it was – the report had been finalised on 7 March 2025 and would come to the July Audit Committee meeting. The Chair requested that this report be forwarded to the Chair and Vice-Chair, alongside the other four. The Auditor agreed that this too could be supplied.
- A Member referred to training for Audit Committee Members and queried whether further training in respect of this topic could be provided. In response, it was explained that this would be provided in July 2025.

The Chair thanked the auditors for the information provided.

AGREED as follows:

- 1. That the Internal Auditor would forward the five completed audit reports to the**

Chair and Vice-Chair, for information.
2. That the information, as presented, was noted.

24/90

2025/26 COUNTER FRAUD PLAN

The Head of Internal Audit from Veritau presented a report, the purpose of which was to provide Members with an update on planned counter fraud activity in 2025/26.

It was indicated that fraud was a significant risk to the public sector, with annual losses estimated to be as high as £59 billion in the United Kingdom. Veritau was engaged to deliver a counter fraud service for the Council, which helped mitigate fraud risk, investigate suspected fraud, and take appropriate action when it was detected.

Members heard that:

- The Council's fraud risk and compliance with national counter fraud strategy should be evaluated regularly.
- Resources allocated should be in line with the threat the Council faced.
- Council policies should help mitigate fraud risk and reflect current best practice.
- Veritau and the Council should regularly undertake developmental work to strengthen counter fraud work.

All of these elements were considered annually in preparing the Counter Fraud Plan.

The 2025/26 Counter Fraud Plan was shown at Appendix 1 of the report.

During discussion, the following points were raised:

- Members noted that the funding amount to undertake this work had been increased from a total of 150 days to 250 days.
- Key priorities for next year included the areas of staff training, assessing new legislation, and expenditure of the Council's budget.
- A Member referred to corporate liability and fraud and queried whether any further information was available regarding this. In response, reference was made to the Economic Crime and Corporate Transparency Act, which would come into effect in September 2025. However, it was unclear at the present time as to whether Local Authorities would be affected by this. If it transpired that they would be, the Council would need to consider policies and reporting measures in order to ensure effective compliance with it.
- A Member referred to the Fraud Risk Assessment shown at paragraph 10 of Annex A and queried whether these were specific risks identified by the Council. In response, it was explained that some risks, such as those related to social care and benefits, were of high risk to Local Authorities in general and not specific only to Middlesbrough Council.

The Chair thanked the auditor for the information provided.

NOTED

24/91

INTERNAL AUDIT WORK PROGRAMME 2025/26

The Head of Internal Audit for Veritau presented a report, the purpose of which was to seek Members' approval for the 2025/26 planned programme for internal audit work.

Appendix 1 set out the proposed internal audit work for 2025/26. The planned work was based on an initial assessment of risk undertaken. The identification of risks included in the assessment had been informed in a number of ways, which included:

- Review of the organisational risk management processes.
- Sector-wide risk information.
- Understanding the Council's strategies and objectives.
- Other known risk areas (for example: areas of concern highlighted by management).
- The results of recent audit work.

- Other changes in Council services and systems.

The proposed areas of coverage had been subject to consultation with the Audit Committee in December 2024, and senior officers including Directorate Management Teams.

To meet professional aims and objectives, good practice for internal audit required the auditors to adopt flexible planning processes. This helped to ensure that internal audit work undertaken during the year was adapted on an ongoing basis to reflect changing and emerging risks within the Council.

The auditors would regularly discuss the scope and timings of work with officers and management to help ensure that assurance was provided in the right areas and at the right time. Further meetings would be held throughout the year to plan and confirm the scope and timings of audit work. Regular updates would also be provided to the Audit Committee on the coverage, scope and findings of the auditors' work.

It was highlighted that the total days allocated to internal audit assurance in 2025/26 was 555.

During discussion, Members raised several points, as follows:

- A Member referred to the Transformation Programme and queried the view that transformation focused on an 8:1 saving retention. In response, the auditor advised that the Transformation Programme underpinned all work undertaken, and that activities were to align with the aims of it.
- A Member commented that work activities should be discussed with the Audit Committee in advance of preparing the programme. In response, it was explained that internal audit had several different prioritisation factors, but essentially it was based against their own knowledge and that of other areas, such as the Audit Committee.
- The Chair referred to a recent meeting that had been held between the Chair, Vice-Chair and the internal auditors. Reference was made to the Audit Universe and it was commented that this could be shared with the Audit Committee. In response, the auditor advised that the Audit Universe was quite high level and further thought would need to be given as to how the Committee could look at that. It was suggested that if any programme suggestions were missing from the list, Members could advise the auditors accordingly.

The Chair thanked the auditor for the information provided.

NOTED

24/92

AUDIT COMMITTEE FUTURE FORWARD WORK PROGRAMME FOR 2025/26

The Head of Policy, Governance and Information presented a draft/indicative work programme for the 2025/26 Municipal Year.

Members noted the contents and would await further updates in due course.

NOTED

24/93

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

None.