

Middlesbrough Council Completion Report for Those Charged with Governance

Years ended 31 March 2022 and 31
March 2023

27 November 2024



Audit Committee
Middlesbrough Council
Civic Centre
Middlesbrough
TS1 9GA

27 November 2024

Dear Audit Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit Committee of Middlesbrough Council (the Council) with a detailed completion report covering our approach and outcomes of the 2021/22 and 2022/23 audits.

Given that Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinions on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77 & A78).

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

In completing our work for these audit years, we have taken into account Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" and Local Authority Reset and Recovery Implementation Guidance (LARRIGs). We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

The Audit Committee, as the Authority's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of value for money arrangements and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw Audit Committee members' and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements.

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Reid', with a horizontal line underneath.

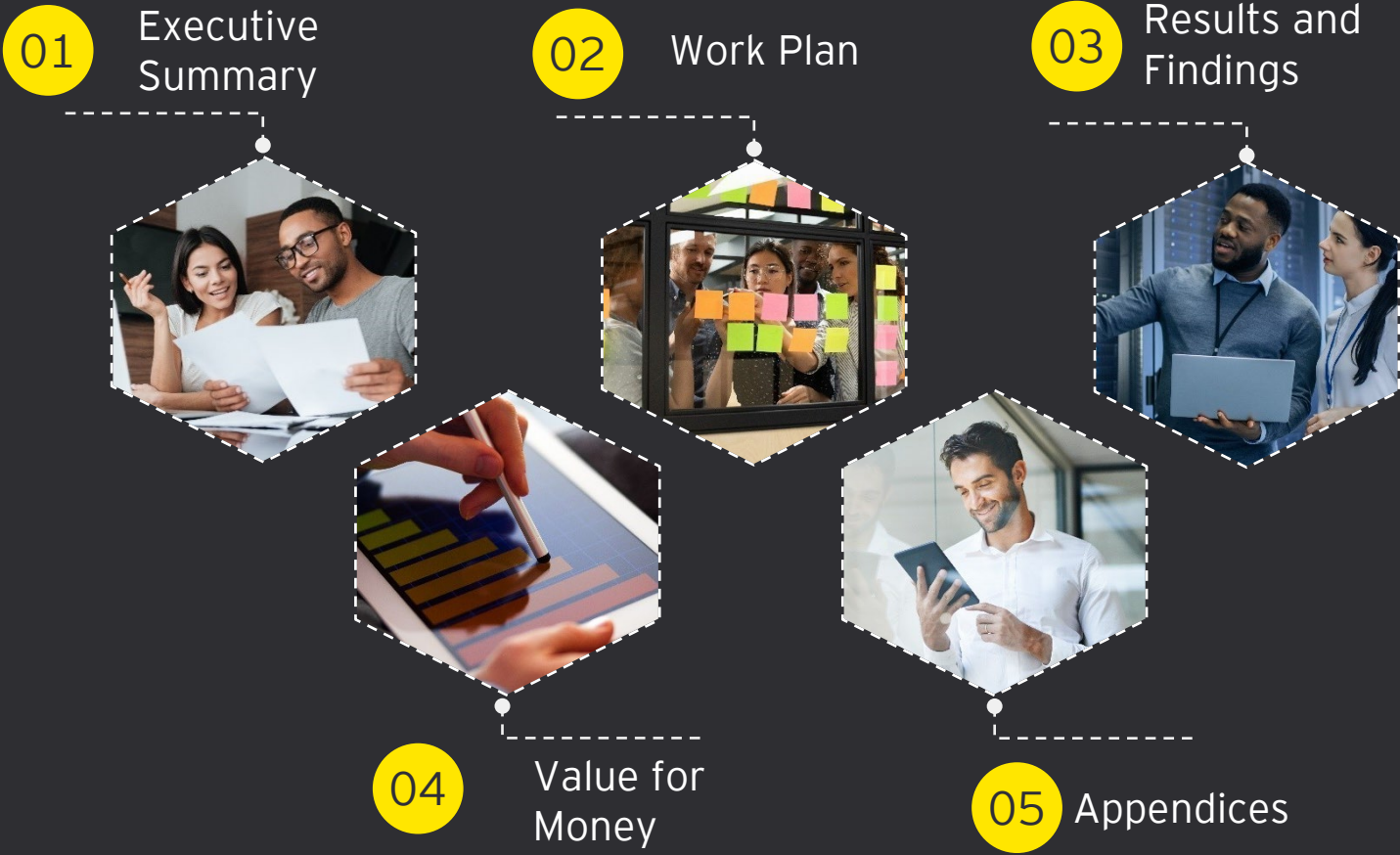
Stephen Reid

Partner

For and on behalf of Ernst & Young LLP

Enc.

Contents




Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website. The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary



Executive Summary – System wide context

Context for the audit – Ministry for Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting professions
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

The Department for Levelling Up, Housing and Communities (DLUHC, now MHCLG) has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 “The Accounts and Audit (Amendment) Regulations 2024” (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing disclaimed audit opinions on the Council's 2021/22 and 2022/23 financial statements. The proposed disclaimers of the Council's 2021/22 and 2022/23 financial statements impacts the audit procedures that we have planned and undertaken to gain assurance on the 2021/22 and 2022/23 financial statements and the form of the audit reports.



Executive Summary - Local context

Local Background and Context

The position at this Council has developed over recent years, with increasing delays to the publication of unaudited and audited financial statements.

The statutory deadlines by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 were 1 August 2022 for the 2021/22 financial statements and 1 June 2023 for the 2022/23 financial statements. The Council did not meet these deadlines, commencing the inspection period for the draft 2021/22 financial statements on 30 August 2022 and the inspection period for the draft 2022/23 financial statements on 8 January 2024. As explained by management, the Council made a conscious decision not to finalise and publish the draft 2022/23 financial statements until a review of the Council's Collection Fund bad debt provision had been completed and audit challenges to the revised methodology resolved.

The audit report on the 2020/21 financial statements was issued on 27 April 2023. We commenced our audit of the 2021/22 audit in October 2022 and presented our Audit Planning Report to the Corporate Affairs and Audit Committee on 5 December 2022, however detailed audit testing did not commence until the 2020/21 audit had been completed. We were unable to complete our audit procedures on:

- The valuation of infrastructure assets. Audit work in this area was delayed whilst we were waiting for the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022). Following the publication of this Update to the Code, the Council was required to update their disclosures and provide supporting evidence for us to perform our audit procedures. When we received the additional information, we did not have the required resources available to perform the work needed to complete the audit;
- The valuation of the pension liability and related balances. Audit work in this area was delayed whilst the Council obtained updated valuations from the Council's actuary reflecting the results of the triennial valuation of the Pension Fund as at 31 March 2022, published on 30 March 2023, and considered the impact on the financial statements. When we received the additional information, we did not have the required resources available to perform the work needed to complete the audit;
- Bad debt provisions in relation to the Collection Fund. Subsequent to preparation of the draft 2021/22 financial statements the Council proposed significant changes to the methodology used to determine the Council's bad debt provisions for Collection Fund balances and changes to associated financial statement balances. This was in response to an audit observation that the methodology had not been reviewed for some time made as part of the 2020/21 audit. Whilst we have had significant back-and-forth with management on these changes, we did not have the required audit resources to fully conclude on this matter;
- Changes to opening balances. A number of changes made to the 2020/21 financial statements between the preparation of the 2021/22 financial statements and completion of the 2020/21 audit required amendments to the opening positions in 2021/22. When we received updated balances and supporting workings, we did not have the required resources available to perform the work needed to complete the audit; and
- There were further areas where audit queries remained outstanding in relation to a number of account areas and our audit work was not therefore completed.

As previously reported by management, the audit of the 2021/22 financial statements was paused between March 2023 and July 2023 to allow the Council's finance team to focus on production of the draft 2022/23 financial statements. Expectations around the timing of backstop dates and the ability to conclude audit work ahead of the anticipated backstop dates, as they were then anticipated to be, impacted on the resumption of detailed audit procedures.

Due to the timing of the completion of the 2020/21 audit, the status of matters set out above in respect of the 2021/22 audit and the delayed publication of the draft 2022/23 financial statements, we assessed that we did not have the audit resources necessary to perform the 2021/22 and 2022/23 audits before the anticipated backstop date.



Executive Summary – Local context

Local Background and Context

In addition, we have identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described in Section 4 of this report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Additionally, other reasons for the Council's financial statements not being prepared, audited and signed to date include:

- The post pandemic timelines resulted in audit teams trying to move delayed audits on to completion, whilst finance teams were trying to catch up, deal with current priorities and plan for the future. This used a significant amount of our finite audit resource, leading to a lack of capacity to move onto the 2021/22 and 2022/23 audit years;
- There were a number of new technical issues and challenges to address during this period including accounting for infrastructure assets and taking into account the results of the 2022 triennial valuation of the Teesside Pension Fund which led to delays in the completion of the 2020/21 audit.



Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (ISAs) UK and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office' Code of Audit Practice (NAO Code). It has been split into the following sections.

Section 1 - Executive Summary - this section setting out the national and local context and the structure of our report.

Section 2 - Work Plan - We have completed the following planning tasks:

- Required independence procedures;
- Set a level of materiality;
- Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer;
- Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting;
- Identified significant, inherent and other areas of higher risk or focus;
- Considered any other matters that may require reporting to regulators, or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 3 - Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements;
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems or service organisations, which we report as appropriate;
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money or any matters that may result in the use of the auditor's powers.

Section 4 - Value for money reporting

- ▶ The value for money commentary covering the years to 31 March 2022 and 31 March 2023.

Section 5 - Appendices



02 Work Plan



Work Plan – Audit Scope

Audit scope

This Completion Report covers the work that we performed in relation to:

- Our audit opinions on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2022 and 31 March 2023 and of the income and expenditure for the years then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the years to 31 March 2022 and 31 March 2023. We include further details on value for money in Section 4.

We also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

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

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

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

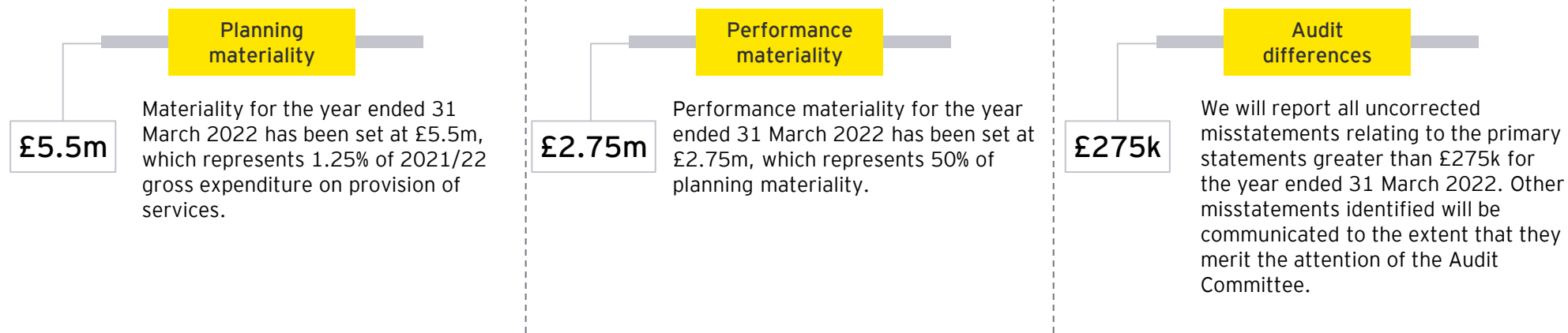
Given that Statutory Instrument (2024) No. 907 "The Accounts and Audit (Amendment) Regulations 2024" imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016) (Ref: Para. A77 & A78).

Taking the above into account, for the years ended 31 March 2022 and 31 March 2023 we have determined that we cannot meet the objectives of the ISAs (UK) and we anticipate issuing disclaimed audit reports.

Work Plan - Materiality

Materiality (2021/22)



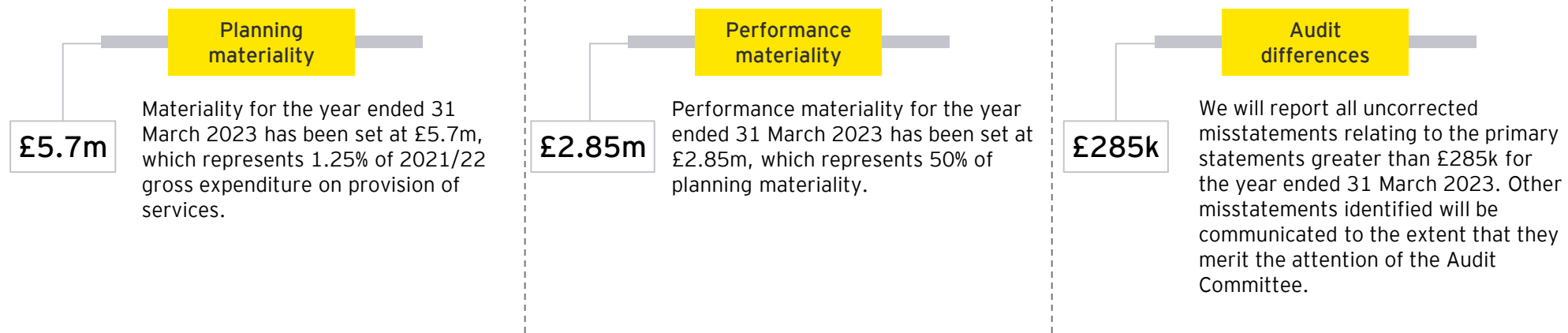
The above materiality levels apply to both our audits of the Group and Authority financial statements.

These materiality levels have been set based on the Council's financial statements. These levels are being used to assess our response to any issues identified in the Council's financial statements.

In our Audit Planning Report on the 2021/22 audit presented to the Corporate Affairs and Audit Committee on 5 December 2022 we reported we had set materiality for our audit at £6.9 million, as 1.5% of the gross expenditure on the provision of services as presented in the Council's draft financial statements for 2021/22. We have revised our materiality assessment down from 1.5% of gross expenditure to 1.25% of gross expenditure due to the deterioration in the Council's financial position since our planning assessment. Our materiality above is also calculated in reference to the revised 2021/22 financial statements.

Work Plan - Materiality

Materiality (2022/23)



The above materiality levels apply to both our audits of the Group and Authority financial statements.

These materiality levels have been set based on the Council's financial statements. These levels are being used to assess our response to any issues identified in the Council's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year.

Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error (applies to 2021/22 and 2022/23)	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition (applies to 2021/22 and 2022/23)	Fraud risk	No change in risk or focus	Under ISA 240, there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Valuation of land and buildings held at market value (applies to 2021/22 and 2022/23)	Significant risk	No change in risk, change in focus	Land and buildings are the most significant assets on the Council’s Balance Sheet. The valuation of land and buildings is dependent upon a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements. In 2020/21 we attached this risk to investment property and assets held as assets under construction which would be classified as investment property once completed. During 2021/22, the Council acquired further assets which are valued on a similar basis but not classified as investment property. We therefore attach this risk to all land and buildings valued at ‘market value’ for 2021/22 and 2022/23.
Accounting for infrastructure assets (applies to 2021/22 only).	Significant risk	New risk for 2021/22, removed for 2022/23	At the time of planning our 2021/22 audit we expected to conclude our 2020/21 audit with a limitation of scope included in our audit report with regards to infrastructure assets, as the Council is unable to evidence that infrastructure assets have been appropriately derecognised when replaced. We therefore recognised a significant risk over the accounting for infrastructure assets for 2021/22. This is a sector-wide issue and amendments to the Council’s reporting framework were made prior to conclusion of the 2020/21 audit such that we did not ultimately include a limitation of scope in our audit report on the 202/21 financial statements. We therefore did not recognise this as a significant risk for 2022/23.

Work Plan – Significant, inherent and other risk areas

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings other than those held at market value (applies to 2021/22 and 2022/23)	Inherent risk	No change in risk or focus	Whilst the valuation of land and buildings held at market value involves the most subjectivity and judgement (see significant risk on previous page), the valuation of the Council's other land and buildings still involves a number of judgements and assumptions, small changes in which can have a significant impact upon the financial statements.
Valuation of defined benefit pension liability (applies to 2021/22 and 2022/23)	Inherent risk	No change in risk or focus	The defined benefit pension liability is the most significant liability on the Council's Balance Sheet. The assessment of the present value of future obligations requires detailed actuarial calculations. Small changes in the assumptions used for these calculations can have a significant impact upon the financial statements.
Valuation of Collection Fund bad debt provisions (applies to 2021/22 and 2022/23)	Inherent risk	New risk	For the 2022/23 financial statements, management undertook a review of the methodology for valuing Collection Fund bad debt provisions which resulted in a significant release of provisions. The 2021/22 financial statements have been also be adjusted to apply back this new methodology as at 31 March 2022.

Details of the value for money risks we identified are set out in section 4 of the report.

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards; and
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

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

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

Work Plan - Independence

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

Overall Assessment

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

Self interest threats

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

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is expected to be well below a 1:1 ratio, see Appendix B. No additional safeguards are required.

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Work Plan - Independence

EY Transparency Report 2024

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 30 June 2024:

[EY UK 2024 Transparency Report | EY UK](#)



03 Results and findings



Results and findings

Status of the audit

Our audit work is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Completion of subsequent events procedures; and
- Receipt of a signed management representation letter.

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion, a current draft of which is included at the end of this section.

Value for Money

Our value for money (VFM) work is complete and reported in Section 4 of this report. We identified five risks of significant weaknesses in the Council's arrangements in respect of the year ended 31 March 2022:

- Member and senior officer relationships;
- Financial sustainability;
- Contracting and procurement;
- Oversight of Middlesbrough Development Company; and
- Provision of children's services.

We identified five risks of significant weaknesses in the Council's arrangements in respect of the year ended 31 March 2023:

- Member and senior officer relationships;
- Asset acquisitions;
- Financial sustainability;
- Contracting and procurement; and
- Oversight of Middlesbrough Development Company.

Further commentary and our conclusions on these risks is provided in Section 4 of this report.



Results and findings

Audit differences

We identified the following audit differences which remain uncorrected within the 2021/22 financial statements:

- Note 39 to the financial statements provides details on the Council's pension liabilities. Within this note, the Council discloses the actual return on scheme assets of £162.002m for the year to 31 March 2021. The corresponding amount within the audited 2020/21 statements was £171.175m, therefore there is a £9.173m variance between the comparators included in the 2021/22 financial statements and the amounts disclosed in the prior period. This is a disclosure only and there is no variance on the amounts reported on the Balance Sheet or charged to the Comprehensive Income and Expenditure Statement.
- Note 3 to the Collection Fund Income and Expenditure Account provides details on provisions relating to the Collection Fund. Within this note, the Council discloses provisions for Council Tax bad debts at 1 April 2021 of £25.005m and for NNDR bad debts at 1 April 2021 of £9.000m. The corresponding amounts within the audited 2020/21 statements were £23.678m and £8.874m, respectively, there is a £1.543m variance between the comparators in the 2021/22 financial statements and the amounts disclosed in the prior period. The amounts stated on the Collection Fund Income and Expenditure Account are consistent.
- We noted a small number of other differences between amounts stated as prior year comparators within the 2021/22 financial statements and the amounts stated within the audited 2020/21 financial statements. None of the other differences exceeded our reporting threshold or otherwise warrant the attention of the Audit Committee.

We identified the following audit differences which remain uncorrected within the 2022/23 financial statements:

- The Group Movement in Reserves Statement provides details of the Group's reserves. Within this statement, the Council discloses unusable reserves as at 1 April 2022 of £14.552m. The corresponding amount disclosed within the 2021/22 financial statements is £15.356m, therefore there is a £0.804m variance between the opening balance within the 2022/23 financial statements and the closing balance within the 2021/22 financial statements. This inconsistency manifests in multiple further places within the Group financial statements, including:
 - The prior period comparator for taxation and non-specific grant income on the Group Comprehensive Income and Expenditure Statement, which is disclosed as £184.506m compared to the £185.310m disclosed in the 2021/22 financial statements;
 - The prior period comparator for short term debtors on the Group Balance Sheet, which is disclosed as £57.794m compared to the £58.597m disclosed in the 2021/22 financial statements; and
 - The prior period comparator for the surplus on the provision of services on the Group Cash Flow Statement, which is disclosed as £3.549m compared to the £4.353m disclosed in the 2021/22 financial statements.
- The Group Cash Flow Statement provides details of the movements in the Group's cash during the period. Within this statement, the Council discloses adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities for the year to 31 March 2022 of £6.201m. The corresponding amount disclosed within the 2021/22 financial statements is £6.702m, therefore there is a £0.501m variance between the comparators in the 2022/23 financial statements and the amounts disclosed in the prior period.
- We noted a small number of other differences between amounts stated as prior year comparators within the 2022/23 financial statements and the amounts stated within the 2021/22 financial statements. None of the other differences exceeded our reporting threshold or otherwise warrant the attention of the Audit Committee.



Results and findings

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts. We have no matters to report as a result of this work.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest").

On 21 August 2023, we issued 11 recommendations to the Council under Section 24 Schedule 7(2) of the Local Audit and Accountability Act 2014 as the Council had not made the overall progress we would have expected against the value for money recommendations we made as part of our 2020/21 audit, and our assessment at that time that three further significant weaknesses in the Council's arrangements to secure value for money in its use of resources had been identified. We have since identified a further significant weakness in the Council's arrangements. Details of the significant weaknesses identified, and recommendations issued to the Council are set out in Section 4.

Objection

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

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

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

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

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



Results and findings

Non-compliance with laws and regulations

During the course of our audits, we became aware of the following instances of potential non-compliance with laws and regulations which have required us to complete extended procedures in order to assess the risk to the financial statements:

- Failure by the Council to comply with the requirements of The Public Contracts Regulations 2015 in the awarding of at least three of the four stages of the Innovate contract for external social work audit support for children's services. Further details on this matter is provided as part of our value for money commentary in Section 4.
- In May 2021, 5 of the 7 members of the Council's Executive resigned citing a number of concerns over the conduct of the Council's then Mayor. As a result, the Council was unable to comply with the requirements of The Localism Act 2011 for the minimum composition of the Executive to consist of the Mayor and at least two other members and was unable to lawfully make decisions. This non-compliance was rectified within 2 days by the appointment of new members of the Executive. We have assessed that this matter did not impact the financial statements, but note it was an indicator of the continued deterioration in relationships between elected members which is covered further in Section 4.
- In July 2023, the Council's Interim Chief Executive informed us that the Council may have applied monies received under the Public Health Grant on expenditure which was ineligible for such use. The Interim Chief Executive has subsequently informed us that a detailed investigation has been completed and that he is satisfied that no monies were applied inappropriately. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to corroborate the results of management's investigation.
- As detailed in Section 1, the Council did not comply with the statutory deadline by which local authorities were required to publish draft financial statements for public inspection under the Accounts and Audit Regulations 2015 for either the year ended 31 March 2022 or the year ended 31 March 2023.
- Local authorities which receive amounts under the Community Infrastructure Levy (CIL) are required by The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019 to publish an annual Infrastructure Funding Statement by the 31 December following the end of each financial year. This requirement was introduced from the 2019/20 financial year, with the first Infrastructure Funding Statement due by 31 December 2020. The Council did not publish Infrastructure Funding Statements for either the 2019/20 or 2020/21 financial years and was therefore not complying with this requirement. This matter was reported in our Audit Planning Report presented to the 5 December 2022 Audit Committee.

In addition, there are various further instances of potential non-compliance with laws and regulations which have come to our attention during the course of these audits. A potential non-compliance with laws and regulations arises when information comes to our attention which indicates a potential act of non-compliance, whether or not any non-compliance has actually occurred, and includes where we receive allegations of wrongdoing.

We have evaluated that only those matters highlighted above warrant the attention of the Audit Committee, however we would highlight the volume of potential instances of non-compliance with laws and regulations reported to us through correspondence we receive as your auditor is exceptionally high. This has a consequential impact on the deployment of audit resources and the cost of delivering your audit.



Results and findings

Areas of audit focus

We identified a number of key areas of focus for our audit of the financial statements of the Council. We concluded we would disclaim our audits and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Control observations

During the audit, we did not identify any significant deficiencies in internal control other than those highlighted in our value for money commentary. Details of our value for money observations are provided in Section 4.

In addition, we have not identified any observations or improvement recommendations in relation to management's financial processes and controls to bring to the Audit Committee's attention other than those set out in our value for money commentary within Section 4.

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention.



Results and findings

Other matters

As required by ISA (UK) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

Other than the matters reported elsewhere in this report, we have no matters to bring to your attention.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2022. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 46 to the Authority financial statements and notes 1 to 8 to the Group financial statements, including a summary of significant accounting policies;
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 3

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit report on the 2020/21 financial statements was issued on 27 April 2023. We commenced our audit of the 2021/22 financial statements in October 2022, however we were unable to complete our procedures on a number of areas including the valuation of infrastructure assets; pension liabilities; and the bad debt provision in respect of the Collection Fund. Amendments to the opening balances were also required to reflect changes made to the 2020/21 financial statements after the 2021/22 financial statements had been prepared. There were also a number of areas where audit queries remained outstanding.

As a result of these delays, together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2021/22 financial statements before the 13 December 2024 backstop date.

In addition, we identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- ▶ Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2022.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are three significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- ▶ Continued deterioration in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;
- ▶ Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust; and
- ▶ Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring it represents best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- ▶ Made enquiries of management and elected members as to their understanding of the culture at the Authority;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

- Reviewed correspondence received during the course of our audit, including from members of the Authority;
- Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support and the governance of Middlesbrough Development Company; and
- Performed testing of contracts awarded by the Authority during the year ended 31 March 2022 to assess whether they had been awarded in accordance with the Authority's Financial and Contract Procedure Rules.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora.

The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2022:

- We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;
- We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;
- We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

- ▶ We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;
- ▶ We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- ▶ We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- ▶ how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation; and
- ▶ how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 28, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2021/22)

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

[DATE]

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 27 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

Disclaimer of opinion

We were engaged to audit the financial statements of Middlesbrough Council ('the Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2023. The financial statements comprise the:

- ▶ Authority and Group Movement in Reserves Statement,
- ▶ Authority and Group Comprehensive Income and Expenditure Statement,
- ▶ Authority and Group Balance Sheet,
- ▶ Authority and Group Cash Flow Statement
- ▶ the related notes 1 to 48 to the Authority financial statements and notes 1 to 16 to the Group financial statements, including a summary of significant accounting policies;
- ▶ Collection Fund Income and Expenditure Account and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and Authority. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

The audit of the 2021/22 financial statements for Middlesbrough Council was not completed for the reasons set out in our opinion on those financial statements dated [DATE]. As a result of the delays to the previous year's audit together with the wider requirements of the local audit system reset, we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements before the 13 December 2024 backstop date.

In addition, we have identified a significant weakness in relation to the Authority's adherence to the Authority's Contract and Financial Procedure Rules which is described below in the significant weaknesses in arrangements section of our report. Due to the imposed backstop date, we were unable to perform sufficient audit work as required by auditing standards and guidance issued in Local Audit Reset and Recovery Implementation Guidance (LARRIG) 04 to determine whether this matter has any impact on the financial statements.

Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Authority.

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

We have nothing to report in these respects.

In respect of the following, we have matters to report by exception:

- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)

Under section 24 of the Local Audit and Accountability Act 2014 (as amended), we may designate any audit recommendation as one that requires the Group and the Authority to consider it at a public meeting and to decide what action to take in response. On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24.

- ▶ Report on the Group and the Authority's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in January 2023, we have identified the following significant weaknesses in the Group and the Authority's arrangements for the year ended 31 March 2023.

Significant weaknesses in arrangements

Our judgement on the nature of weaknesses identified

We have observed evidence which leads us to conclude that there are five significant weaknesses in the Authority's arrangements which undermine the Authority's ability to achieve and evidence value for money in its use of resources. These are:

- ▶ Significant breakdowns in the relationships between elected members and senior officers, and between elected members, characterised by a pervasive lack of trust within the Authority between officers and elected members, and between elected members, which had a significant impact on the effectiveness of the Authority's governance arrangements;

- ▶ Inadequate arrangements over how the Authority plans and manages its resources to ensure it can continue to deliver services, including significant underestimation of the resources required to meet the Authority's statutory duties with regards to children's safeguarding and social care and overspending against the Authority's approved budget for the year ended 31 March 2023;

- ▶ Pervasive non-adherence within the Authority to the Authority's Contract and Financial Procedure Rules, including a well-established informal and undocumented practice in respect of the application of procurement exemptions which is neither compliant with the requirements of the Authority's Financial and Contract Procedure Rules or as robust;

- ▶ Significant gaps in the Authority's arrangements for overseeing the activities of its subsidiary, Middlesbrough Development Company, and ensuring they represent best use of the Authority's resources, including a lack of clarity over the roles and responsibilities of individuals (including members and officers), inadequate monitoring and management of the subsidiary's performance and insufficient consideration of the composition and training of the subsidiary's Board; and

- ▶ Insufficient arrangements to ensure that the Authority makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including insufficient due diligence to inform decision making, the provision of incomplete and inaccurate information to decision makers and an absence of clear post-acquisition plans for the property.

The evidence on which our view is based

We have formed our conclusion on the Authority's arrangements having:

- ▶ Made enquiries of management and elected members as to their understanding of the culture at the Authority, including adherence to key financial and contracting controls;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ Reviewed correspondence received during the course of our audit, including from members of the Authority;
- ▶ Considered our observations from direct interactions with officers and members, and from attendance at meetings of the Authority's Corporate Affairs and Audit Committee;
- ▶ Reviewed the Authority's Medium Term Financial Plan and quarterly reporting of financial performance; and
- ▶ Reviewed the reports of internal audit and officer-led investigations, including in relation to the awarding of contracts for external social work support, the governance of Middlesbrough Development Company and the acquisition of a strategically significant property.

The impact on Middlesbrough Council

The breakdown in relationships between elected members and officers, and between elected members, leads to an increased risk that the Authority takes decisions which do not deliver economy, efficiency and effectiveness in the Authority's use of its resources due to the non-adherence to the respective boundaries of officer and member responsibilities and a lack of engagement with the Authority's proper decision-making fora.

The deterioration in the Authority's financial position increases the risk that the Authority will need to identify, develop and implement significant savings plans in order to maintain current levels of service provision. Inaccurate forecasting of the levels of required savings increases the risk of having to reduce levels of service provision in order to protect the Authority's already depleted reserve balances.

The pervasive non-adherence to the Authority's Contract and Financial Procedure Rules increases the risk that the Authority enters into contracts which do not represent value for money and achieve less for the resources expended than might have been achievable, and that contracts are awarded in a manner which is not fully compliant with relevant procurement laws and regulations.

The gaps in the oversight of Middlesbrough Development Company limit the Authority's ability to evidence that the resources provided to Middlesbrough Development Company are being deployed in the most efficient manner and may hinder the ability of the Authority to obtain and analyse information about costs and performance to improve the way it manages and delivers services.

Insufficient due diligence and inappropriately informed decision making increases the risk that the Authority acquires properties for which it lacks a clear understanding of the potential liabilities to which the Authority will become exposed to and that it is unable to realise the potential benefits of ownership from.

The actions the Authority needs to take to address the weaknesses

On 21 August 2023, we issued a report containing recommendations concerning the Group and the Authority's corporate governance designated under section 24 of the Local Audit and Accountability Act 2014 (as amended), including the following recommendations related to the significant weaknesses in the Council's arrangements for the year ended 31 March 2023:

- ▶ We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan;
- ▶ We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions;
- ▶ We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities;
- ▶ We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded;
- ▶ We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned;
- ▶ We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;
- ▶ We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to;
- ▶ We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary;

- ▶ We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and
- ▶ We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.

In addition we make the following recommendations:

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

Conclusion

These issues are evidence of significant weaknesses in arrangements in:

- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks, including how decisions are supported by appropriate evidence allowing for challenge and transparency and how the Authority ensures officers and members discharge their respective responsibilities in accordance with the Authority's Constitution;
- ▶ how the Authority plans and manages its resources to ensure it can continue to deliver services, including how the Authority ensures its financial forecasts are accurate and how the Authority ensures delivery of its services within the resource envelope envisaged;

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

- ▶ how the Authority advertises, competes and awards contracts for the purchase of goods and services, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in its use of resources and how it ensures that contracts are awarded in accordance with applicable legislation;
- ▶ how the Authority oversees the activities of its subsidiary, Middlesbrough Development Company, including how the Authority ensures, and is able to demonstrate that it has ensured, that it secures economy, efficiency and effectiveness in the use of resources provided by the Authority to Middlesbrough Development Company; and
- ▶ how the Authority ensures that it makes informed decisions and properly manages its risks with regards to the acquisition of strategically significant properties, including how the Authority has assessed the merits and risks of acquisition and communicated these to decision makers.

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 33, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Group and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Authority either intends to cease operations, or has no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Group and the Authority's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in November 2024, as to whether Middlesbrough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Middlesbrough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements (2022/23)

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Middlesbrough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Middlesbrough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Reid (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

London

[DATE]

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 27 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.



04 Value for Money



VFM – Executive Summary

Purpose

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

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

This commentary covers our findings for audit years 2021/22 and 2022/23.

The report sets out the following areas which have been assessed as part of our value for money considerations:

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

Our interim commentary on the Council's arrangements for the period 1 April 2021 to 31 March 2023 was issued to the Council on 10 July 2024, at which point we considered it final. No matters have come to our attention since we issued our value for money commentary which have led to changes in the commentary presented on the following pages.

VFM – Executive Summary

Risks of significant weakness

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

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

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

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

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

Governance: Asset Acquisitions

Applicable to 2022/23 only

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

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

Work performed to address the risk of significant weakness

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

Financial Sustainability: Financial Sustainability

Applicable to 2021/22 and 2022/23

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

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

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

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

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

Improving Economy, Efficiency and Effectiveness: Contracting and Procurement

Applicable to 2021/22 and 2022/23

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

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

Work performed to address the risk of significant weakness

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

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

Applicable to 2021/22 and 2022/23

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

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

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

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

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

VFM – Executive Summary

Risks of significant weakness

Description of risk identified

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

Applicable to 2021/22 only

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

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

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

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

Work performed to address the risk of significant weakness

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

VFM – Executive Summary

Reporting

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

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

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

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

VFM – Executive Summary

Reporting

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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

- 1. We recommend that the Council ensures the recent progress with development of the next phase of the Corporate Governance Improvement Plan is progressed without further delay, and that appropriate prioritisation is given to actions which address the cultural and governance issues of the Council within the expanded scope of the revised Corporate Governance Improvement Plan.**
- 2. We recommend that the Council develop contingency and succession governance protocols to ensure that delivery of the Corporate Governance Improvement Plan is not further disrupted by any future changes in one or more of the Council's senior leadership positions.**



VFM – Commentary

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

- There are multiple references within the Constitution to job titles or grades which are not otherwise used by the Council. We noted differing interpretations within the Council as to how these terms map onto the job titles and grades which are in use within the Council, resulting in a lack of clarity as to how the responsibilities and approval requirements defined within the Constitution in reference to such job titles and grades should be applied;
- Article 17 of the Constitution specifies that the Financial and Contract Procedure Rules (Standing Orders) are part of the Constitution and that "all financial transactions and contract proceedings must be carried out in accordance with the Middlesbrough Borough Council Financial and Contract Procedure Rules". The Financial and Contract Procedure Rules should therefore be a key document for the Council, however it is our assessment that there is a limited understanding of the requirements of the Financial and Contract Procedure Rules within the Council. As a result, non-adherence to the requirements of the Financial and Contract Procedure Rules is pervasive within the Council and practices which do not meet the requirements of the Financial and Contract Procedure Rules are well established and widely adopted. This is a contributory factor to several of the significant weaknesses in arrangements highlighted in this commentary; and
- Prior to submitting the terms of the Chief Executive's departure to the Corporate Affairs and Audit Committee for approval, the Council sought legal advice as to the correct committee under the Council's Constitution to make this decision. This advice relied upon Article 16 of the Constitution which states that the Corporate Affairs and Audit Committee has delegated powers to "deal with any matter, which is not an Executive function and that has not delegated to any other committee of the Council". In effect, this Article establishes the Corporate Affairs and Audit Committee as the committee of default or last resort for all non-Executive decisions. In our view, it is not appropriate for the audit committee-equivalent body to take such decisions as it creates a risk of conflicts of interest for the committee between decision making processes and the independent challenge to decisions which such bodies should provide.

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

- 3. We recommend that the Council prioritises the conclusion of its review and updating of the Constitution, drawing upon examples of best practice and ensuring that the refreshed Constitution is clear in its language and requirements. Training on the refreshed Constitution should be provided to all officers and members to ensure that changes are appropriately understood and implemented.**

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

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



VFM – Commentary

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

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

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

- It is unclear why the Crown Pub site was identified by the Council as a particular site of interest from December 2021, having not previously been included on lists of priority 'eyesore' sites produced in June 2020 or September 2021. The Council is therefore unable to demonstrate the relative merits of pursuing this site for redevelopment over other sites within the town;
- The Council did not produce a meaningful business case in support of the purchase which would have set out the pros and cons to inform any decision to purchase the property, with internal audit describing the business case which had been produced as "*superficial and did not present a detailed analysis of the case for purchasing the property*". The absence of a robust business case also meant that the Council did not have a clear plan for the future use of the property, and therefore lacked a detailed assessment of the investment into the property which would be required post-acquisition. The potential structural and redevelopment costs cited in the Executive report were also likely to be inaccurate as the Council did not complete a detailed survey of the property prior to purchase;
- Poor communication between the Chief Executive and other officers resulted in the property owner's initial proposal of a purchase price of £750,000 being understood by officers as having been agreed by the Chief Executive. As a result, the Council did not seek to negotiate on the purchase price despite the Council's own valuation valuing the property at just £460,000. Officers also reported to internal audit feeling that they were being asked to complete the purchase at pace without time to complete proper due diligence on the purchase; and
- Elements of the report submitted to the Council's Executive in support of the decision to purchase the property were assessed by internal audit as "*either missing or misleading*". In addition to the factors already noted above, this included the report giving an impression that the purchase process was at a less advanced stage than it really was, that a decision by DLUHC on the Council's application to the Levelling-Up Fund was further away than it actually was (the report referred to a decision being due "in the spring") and references being made to the potential future transfer of the property to Middlesbrough Development Corporation without appropriate highlighting of the uncertainty of this (at the time of the report, Middlesbrough Development Corporation had not yet been established and any assets to be transferred to it remained subject to further decision making outside of the Council's control).



VFM – Commentary

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

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

- 6. We recommend that the Council builds upon the steps already taken to control its expenditure to identify specific deliverable savings over the short term (next 12 months) and protect its limited remaining reserves. Where appropriate, this may need to include the Council changing how it meets its statutory responsibilities and the extent to which it delivers services which are not required to discharge its statutory responsibilities.**



VFM – Commentary

7. We recommend that the Council reviews its service delivery models to ensure that they are efficient, represent value for money and achieve the outcomes required for the resources invested. Where opportunities to improve service delivery models are identified, the Council should develop detailed plans for implementation of service delivery transformation and how the up-front transformation costs will be funded.
8. We recommend that the Council review its financial forecasting processes to understand why significant financial pressures, over and above those anticipated and reflected in the Council's annual budget, have emerged within the first half of both the 2022/23 and 2023/24 financial years and ensure future forecasting reflects the lessons learned.

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

- 9. We recommend that the Council conclude its review of its Financial and Contract Procedure Rules to ensure that they reflect the needs of the Council and the expectations of members and implement the revised rules without delay. This should include being explicit on how contract modifications should be assessed and managed, as the Financial and Contract Procedure Rules do not currently address contract extensions;**
- 10. We recommend that, once the Financial and Contract Procedure Rules are finalised, training is provided to all officers involved in contracting, procurement or financial decision making to ensure that the requirements of the Financial and Contract Procedure Rules are understood and adhered to; and**



VFM – Commentary

- 11. We recommend that the Council complete their review of all ongoing contracts which were initially awarded under an exemption but have been subject to subsequent amendment (including extension) to identify whether they are compliant with The Public Contracts Regulations 2015. If further non-compliance is identified, the Council should evaluate whether any remedial action is necessary.**

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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

- 12. We recommend that the Council review its oversight arrangements for Middlesbrough Development Company for the period up to the demise of the entity, so that it can satisfy itself that Middlesbrough Development Company is delivering value for money with the resources provided to it during this period; and**
- 13. We recommend that the Council develop an action plan for the demise of Middlesbrough Development Company which sets out how the Council will realise the value which has been created through the resources provided to Middlesbrough Development Company by the Council.**



VFM – Commentary

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

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

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

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

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

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

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

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

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

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



VFM – Commentary

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

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

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

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



VFM – Commentary

Arrangements since 31 March 2023

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

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

Culture and Governance

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

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

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

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

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

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



VFM – Commentary

Financial Sustainability

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

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

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

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

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

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



VFM – Commentary

Middlesbrough Development Corporation

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

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

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



05

Appendices

Appendix A – Management representation letter

Management representation letter

This is the draft management letter template which Management will tailor and send back signed and dated prior to the audit opinions being issued. We present below the draft letter for the year ended 31 March 2022. The draft management letter for the year ended 31 March 2023 is substantively the same, other than amendments to reflect the different financial year to which it relates.

Management Rep Letter

[To be prepared on Middlesbrough Council's letterhead]

[Date]

Ernst & Young
1 More London Place
SE1 2AF

This letter of representations is provided in connection with your audit of the consolidated and parent Authority financial statements of Middlesbrough Council (“the Group and Authority”) for the years ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent Authority financial statements give a true and fair view of, the Group and Authority financial position of Middlesbrough Council as of 31 March 2022 and of its financial performance and its cash flows for the year then ended in accordance with, for the Group and the Authority, the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

We understand that the purpose of your audit of our consolidated and parent Authority financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the parent Authority, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Group and Authority, our responsibility for the fair presentation of the consolidated and parent Authority financial statements. We believe the consolidated and parent Authority financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and parent Authority in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Authority financial statements are appropriately described in the Group and Authority financial statements.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

4. As members of management of the Group and Authority, we believe that the Group and Authority have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

6. We confirm the Group and Authority does not have securities (debt or equity) listed on a recognised exchange.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Authority's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and parent Authority financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Group or Authority (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), including non-compliance matters:

► Involving financial improprieties

► Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Authority financial statements

► Related to laws and regulations that have an indirect effect on amounts and disclosures in the consolidated and parent Authority financial statements, but compliance with which may be fundamental to the operations of the Group and Authority's business, its ability to continue in business, or to avoid material penalties

► Involving management, or employees who have significant roles in internal control, or others

► In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

► Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

► Additional information that you have requested from us for the purpose of the audit; and

► Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent Authority financial statements.

3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: [TBC]

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Authority's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the consolidated and parent Authority financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

6. We have disclosed to you, and the Group and Authority has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent Authority financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorised access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorised access to our information technology systems is reasonably likely to have a material effect on the consolidated and parent Authority financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and parent Authority financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the notes to the consolidated and parent Authority financial statements all guarantees that we have given to third parties.

E. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral, other than those that are disclosed in the notes to the financial statements. All assets to which the Authority has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements, we have no other line of credit arrangements.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

F. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and the defined-benefit pension balances and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

G. Valuation of Non-Current Assets

1. We confirm that the significant judgments made in making the valuation of non-current assets have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of non-current assets.
3. We confirm that the significant assumptions used in making the valuation of non-current assets appropriately reflect our intent and ability to carry out future actions on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
5. We confirm that appropriate specialised skills or expertise has been applied in making the valuation of non-current assets.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements.

H. Retirement Benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

K. Going Concern

1. Note 1 to the consolidated and parent Authority financial statements discloses all the matters of which we are aware that are relevant to the Group and authority's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

L. Subsequent Events

1. Other than the events described in Note 5 to the consolidated and parent Authority financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and parent Authority financial statements or notes thereto.

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

M. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent Authority, subsidiary undertakings and associated undertakings.

N. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information contained within the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We confirm that the Annual Governance Statement for 2021/22 is a true reflection, in all material respects, of the governance arrangements and the effectiveness of those arrangements in 2021/22 and includes disclosure of all significant governance issues and findings relating to that financial year, through to the date of this letter.

O. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and the Group and Authority have reflected these in the consolidated and parent financial statements.

Yours faithfully,

Director of Finance and Section 151 Officer

Chair of Audit Committee

Appendix B – Fees

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

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

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our financial statement opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council;
- ▶ The Council has an effective control environment; and

The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See

<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>.

In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. See Appendix E.

	2022/23	2021/22	2020/21
	£	£	£
Scale fee - Council (1)	106,328	88,578	88,578
Scale fee - Pension Fund (1)	35,222	21,972	21,972
Total scale fees	141,550	110,550	110,550
Changes in work required to address professional and regulatory requirements and scope associated with risk - Council (2) (4)	81,850	81,850	65,480
Changes in work required to address professional and regulatory requirements and scope associated with risk - Pension Fund (3) (4)	49,199	49,199	39,359
Revised scale fees	272,599	241,599	215,389
Additional specific one-off considerations reflecting a change in audit work - Council (2) (5) (6)	See notes	See notes	148,645
Additional specific one-off considerations reflecting a change in audit work - Pension Fund (7)	54,918	74,041	5,000
Total core audit fees	327,517	315,640	369,034
IAS 19 procedure fees (recurring) - Pension Fund (8)	9,970	9,250	8,500
IAS 19 procedure fees (triennial) - Pension Fund (8)	-	10,000	-
Total audit fees	337,487	334,890	377,534
Non-Audit Fee - Housing Benefit certification work (9)	-	36,800	13,450
Non-Audit Fee - Teachers' Pension certification work (10)	-	7,250	5,250
Total other non-audit services	-	44,050	18,700
Total fees	337,487	378,940	396,234

All fees exclude VAT, see notes overleaf

Appendix B – Fees

Notes

(1) We do not believe that the scale fee reflects the changes in the audit market and increases in regulation since the PSAA tender exercise for the periods 2018/19 to 2022/23. For 2022/23, PSAA increased the base scale fee but in our view this still does not fully cover the additional work required to deliver a high-quality audit. For reference, the scale fees for the 2023/24 audits of the Council and Pension Fund under the new PSAA contract have been set at £321,074 and £102,380, respectively.

(2) We have previously communicated to the Audit Committee additional fees requested from PSAA in respect of the 2020/21 audit of the Council of £81,580 as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and £184,572 as our assessment of the additional fee required to reflect specific one-off considerations necessitating additional audit procedures (aggregate: £266,422). PSAA have now determined the combined additional fee for these matters as £214,125. We do not receive a breakdown of this amount from PSAA by the two descriptions presented so report this pro-rata against the amounts requested.

(3) We have previously communicated to the Audit Committee additional fees requested from PSAA in respect of the 2020/21 audit of the Pension Fund of £39,359 as our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and £5,000 as our assessment of the additional fee required to reflect specific one-off considerations necessitating additional audit procedures (aggregate: £44,359). PSAA have not yet made a determination on the final fee amounts.

(4) We determine our assessment of the additional fee required to reflect changes in the level of work required to address professional and regulatory requirements and scope associated with risk in reference to hourly rates set by PSAA. PSAA increased these rates by 25% with effect from the 2021/22 audit, however final amounts are subject to agreement with PSAA following the completion of the audits.

(5) We note that there continue to be factors which increase the extent of our audit procedures over and above the levels envisaged by PSAA when determining scale fees. For both the 2021/22 and 2022/23 audits this has included responding to the significant governance issues highlighted in our value for money commentary, the issuance of statutory recommendations to the Council in August 2023, dealing with a significant volume of correspondence and a large number of instances of potential non-compliance with laws and regulations (see section 3). The nature of these issues are such that they require involvement of the most senior members of the audit team, and we have had to undertake a number of internal consultations in relation to our conclusions on these matters.

(6) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by MHCLG and the FRC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2021/22 and 2022/23 audits. In doing so, PSAA will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee. We will submit our assessment of the impact of both the additional audit work required to respond to specific matters (as per point 5 above) and the impact on the level of audit work performed in support of the disclaimed opinions to PSAA, who make a determination on our final audit fees for 2021/22 and 2022/23.

(7) We have encountered a number of challenges in the delivery of our 2021/22 and 2022/23 audits of the Pension Fund, including a higher than expected number of misstatements, the identification of an additional significant risk in respect of revenue recognition (2021/22 only), management's inability to support certain disclosures and general delays in the receipt of audit evidence and explanations. Further details are provided in the separate Audit Results Reports for our 2021/22 and 2022/23 audits of the Pension Fund. The amounts shown are our assessment of the impact of these challenges on our audit fees, however the final audit fees will be subject to determination by PSAA.

Appendix B – Fees

Notes

(8) As part of our audit of the Pension Fund we undertake additional procedures to enable us to report to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. These procedures are additional to the procedures we must complete to support our opinion on the financial statements of the Pension Fund. We perform these procedures each year, however for 2021/22 we also undertook additional procedures in respect of the membership data submitted by the Pension Fund to inform the triennial valuation of the Pension Fund and reported separately on these procedures to the auditors of scheduled bodies. Management may opt to recharge these fees to the relevant member bodies.

(9) Our fee for the 2021/22 Housing Benefit assurance work reflects the fact that the Council requested we perform all of the initial testing, whereas we would normally request the Council to perform the initial testing and reperform a sample of those tests to confirm the conclusions reached. We also had to repeat parts of our work after the Council submitted a second claim form to DWP following identification of errors in the original submission, and return several samples to the Council as they were incorrectly prepared. The fee of £36,800 shown is our current estimate but the final fee will be communicated to management once the work is complete. [Management have advised us that they are not expecting to request we perform the Housing Benefit assurance work for 2022/23.](#)

(10) We agreed with management that we would not provide the certification work in relation to the Council's Teachers Pension return for 2022/23.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Completion report for Those Charged with Governance
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Completion report for Those Charged with Governance
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	This Completion report for Those Charged with Governance
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted 	This Completion report for Those Charged with Governance
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee

Our Reporting to you

Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> ▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' integrity, objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E – PSAA Statement of Responsibilities

As set out in Appendix B our fee is based on the assumption that the Council complies with PSAA’s Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2024 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

UKC-024050 (UK) 07/22. Creative UK.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/UK