

**MIDDLESBROUGH COUNCIL**

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

### **Executive summary**

The External Auditor, Forvis Mazars, has concluded their assessment work in relation to the Council's systems and arrangements for securing value for money on the use of resources within the organisation. This covers the period from 1 April 2023 to 31 March 2024. The annual audit report gives their main findings on the work undertaken to date.

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

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

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

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

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

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

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

## **1. Purpose**

- 1.1 The purpose of the report is for Forvis Mazars, the Council's External Auditor, to present their Value for Money opinion for the 2023/24 financial year. This sets out their findings and commentary on the Council's systems and arrangements over this period and highlights any deficiencies that require improvement for the future.
- 1.2 The report also covers some other findings that the Auditor wants to raise with the Committee based on their audit work on the financial year. In particular, the expectation on the audit of the financial statements is important, plus their assessment of the control environment in place, and their level of audit fees for the year concerned.

## **2. Recommendations**

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

- Note the contents of the Annual Auditor's report in Appendix 1.
- Note the weaknesses in the value for money arrangements of the Council and the auditor's recommendations for improvement.
- Note the management response to the recommendations set out in Appendix 2.
- Note the expected position of a disclaimed position on the audit of the Council financial statements for 2023/24 by the backstop date of 28 February 2025.
- Note that the auditor is currently working on the audit of the 2023/24 Teesside pension fund accounts with a view to issuing an opinion by the backstop date of 28 February 2025.
- Discuss any appropriate matters with the external auditors and officers, in terms of the matters being raised, and how they impact on future reports and accounts that may come to the Committee for approval.
- Note that the auditors report will be reported to the next Council meeting on 15 January 2025.

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

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

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

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

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

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

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

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

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

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

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

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

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

4.1 The Committee is required to receive and consider the external auditor’s report as part of its governance role and responsibility in relation to audit activities. As such, no other options are available.

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

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

	<p>value for money opinion) is set out in the Accounts and Audit Regulations 2015 and subsequent amendments. The role of the external auditors within this is defined in the Local Audit and Accountability Act 2014. Any non-compliance with these requirements will be highlighted to Members where appropriate.</p>
Risk	<p>The report sets out how the external auditor has assessed the Council's value for money arrangements any other related items that need to be reported to the Committee.</p> <p>The governance and value for money arrangements in place within the Council need to be robust when managing public money. It is the external auditor's role to consider these, provide assurance where appropriate, and report on any significant findings to those charge with governance under the Council's constitution.</p> <p>The assessment by Forvis Mazars contains an element of reputational risk in how the Council has managed the various processes and as such, given its significant, is included within the Council's strategic risk register.</p>
Human Rights, Public Sector Equality Duty and Community Cohesion	<p>There are no direct implications in this area as a result of this report.</p>
Climate Change / Environmental	<p>There are no direct implications in this area as a result of this report.</p>
Children and Young People Cared for by the Authority and Care Leavers	<p>There are no direct implications in this area as a result of this report.</p>
Data Protection	<p>There are no direct implications in this area as a result of this report.</p>

## Appendices

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

## Background papers

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

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