

AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday, 12 December 2024.

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

ALSO IN ATTENDANCE: C Andrew (External Auditor) (Forvis Mazars)
J Dodsworth (Internal Auditor) (Veritau)
P Jeffrey (Internal Auditor) (Veritau)
M Kirkham (External Auditor) (Forvis Mazars).

OFFICERS: A Johnstone, C Lunn, D Middleton, E Scollay and J Weston.

APOLOGIES FOR ABSENCE: None.

24/48 **WELCOME AND EVACUATION PROCEDURE**

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

24/49 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor J Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor B Hubbard	Non-Pecuniary	Member of Teesside Pension Fund

24/50 **FORVIS MAZARS AUDITORS ANNUAL REPORT 2023/24**

The Head of Finance and Investment had produced a covering report to assist Members with the context and understanding of the annual audit work, and the report that had been submitted by the External Auditors. Auditors from Forvis Mazars were in attendance to present their annual report.

It was explained that assessment work in relation to the Council's systems and arrangements for securing value for money on the use of resources within the organisation had been concluded. This covered the period from 1 April 2023 to 31 March 2024. The annual report presented the main findings on the audit work undertaken to date; the findings of the report provided an updated assessment of the Council's Value for Money arrangements.

The report noted that the previous external auditor, Ernst & Young LLP (EY), had issued statutory s24 recommendations for the 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 had been regularly reported to Council and the 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 would be no specific report made to close down those recommendations by EY. The Forvis Mazars report for 2023/24 therefore superseded the 2021/22 and 2022/23 report produced by EY in relation to the assessment of the Council's VFM arrangements.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 had assessed the Council's arrangements in place during 2023/24 and, where appropriate, considered the progress made up to the date of issuing the

report. Forvis Mazars had audited the Council's VFM arrangements and identified weaknesses (qualifications) in relation to all three elements of the audit assessment: financial sustainability; governance and improving economy; and efficiency and effectiveness. Recommendations were made to the Council in respect of these weaknesses. However, no statutory s24 recommendations had been issued as part of the report. Given the significance of the report, it would also be reported to the next Council meeting on 15 January 2025.

A management response to the recommendations set out the progress made during 2023/24 and to date in delivering improvement in the VFM arrangements.

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

During discussion, several points were raised, as follows:

- A Member referred to governance arrangements and queried whether there was sufficient capacity to deliver the 2024/25 audit on time. In response, it was explained that interim agency staff were currently being retained to support the permanent team. The interim staff would remain in post beyond March 2025 to enable the accounts to be audited by the backstop date. It was indicated that a draft departmental structure and related reinvestment bid had been produced, though permanent recruitment could not take place until the Council budget had been considered. However, work had already commenced in respect of the 2024/25 accounts. It was noted that there would be challenge for the finance team to support the 2024/25 audit; additional resources would be required. It was highlighted that the interim Director of Finance would be leaving the authority shortly; the post would be advertised on a permanent basis. A short discussion ensued in relation to the high number of interim roles and the hopeful transference of these into permanent positions in the future.
- A Member referred to the Council's Transformation Programme and queried how this was progressing. In response, the Committee heard that significant progress had been made within the last year, where enormous financial challenge had needed to be met with the greatest of urgency. It was acknowledged, however, that there was still significantly more work to do. The importance of ensuring that Elected Members were fully informed and involved in the Transformation Programme was highlighted; a training programme to assist with this would be devised. The Director of Finance advised that the draft 2025/26 budget report considered by Executive on 4 December 2024 presented a balanced budget; the final financial settlement amount was currently awaited. It was felt that the savings identified were achievable and would meet the Medium Term Financial Plan (MTFP). The Committee discussed exceptional financial support; income management; and use of reserve funds.
- A Member referred to the Q2 monitoring report and some savings that had yet to be realised; transformation in Children's Services and Adult Social Care was highlighted. A query was raised in relation to home to school transport and the costs around that. In response, it was indicated that £3m had been allocated to the SEND budget for 2024/25 for this. A short discussion ensued in relation to children in care and the management of complex cases.
- In response to a query regarding Council Tax, additional housing and income generation, Members heard that this was included in MTFP modelling / forecasting.

The Chair thanked the auditors and officers for their reports and contributions to the meeting.

NOTED

24/51

PARTNERSHIP GOVERNANCE - ANNUAL ASSURANCE REPORT

The Head of Policy, Governance and Information presented a report, the purpose of which was to outline the results of the annual assessment of the key partnerships that Middlesbrough Council was a member of, against the Council's Partnership Governance Policy and supporting minimum standard.

The following points were noted:

- The overall outcome was positive.
- The Partnership Governance Policy would be considered by The Mayor at an Individual Executive Member meeting during week commencing 16 December 2024.
- The report outlined the actions taken over the last year.
- The Health and Wellbeing Strategy had been refreshed.
- Performance management was being improved.
- Reference was made to page four of the report and the positive overall assessment in reflection of the outputs of the Teesworks review.
- The report aligned with the Tees Valley Combined Authority's (TVCA) report, which was available on their website.
- There was a lot of positive action being undertaken to develop and improve partnership working.

In response to a query from a Member regarding the 28 recommendations contained in the report, it was explained that these would be picked back up in January 2025.

In response to a comment from a Member regarding the effectiveness of Tees Valley joint scrutiny, it was explained that the report was a reflection of 2023/24; positive work was being undertaken with the TVCA. Responding to a subsequent query from another Member regarding the red rating on TVCA and any associated pressures on the Council, it was explained that this rating reflected that work was being undertaken with TVCA and relevant risks had been identified. A short discussion ensued in relation to funding and financial agreements with TVCA.

NOTED

24/52

DIRECT PAYMENTS AUDIT REPORT

The Director of Adult Social Care and Health Integration presented a report, the purpose of which was to set out the findings of a recently finalised investigation by the Council's Internal Audit service, Veritau, into the arrangements for Direct Payments, and to describe the management action plan in response to the audit recommendations.

By way of background, it was explained that Direct Payments were local health and social care payments for people who had been assessed as requiring support from social services, and who would prefer to arrange and pay for their own care and support rather than to receive services directly from the Local Authority. The aim of direct payments was to allow the service user greater choice and control through the flexibility of being able to purchase their own care package. The Care Act (2014) mandated direct payments for the first time in April 2015.

The Council's Direct Payments guidance defined Direct Payments and under what conditions Direct Payments could be made. In the year 2023/24, £9,690,242.40 was paid to adults and carers and £318,735.83 was paid to children. At the start of the audit, there were 832 active customers currently in receipt of Direct Payments; 555 adults on a managed account, and 217 adults who had their Direct Payment made directly into their account. There were also 59 children who received Direct Payments.

The audit activity focused on the period December 2022 to December 2023, which was undertaken following a request by management within Adult Social Care for Internal Audit to assess arrangements for Direct Payments.

The Committee heard that although the audit determined that there were effective processes in place for some elements of the process, there were four findings that required early resolve by management as collectively they had produced a finding of Limited Assurance. These four findings, together with actions that would be taken to deliver the recommendations, were outlined as follows:

- Recommendation One: Annual review of direct payment provision by Social Care staff.
Action: Plans were in place to utilise temporary staff, funded by Flexible Use of Capital Receipts, with the intention of eradicating the backlog. A further plan had been agreed in the actions to facilitate future compliance with timescales along with further dip sampling to provide assurance of compliance for management. It was anticipated that full implementation would be achieved by the end of May 2025.
- Recommendation Two: Monitoring of direct payment spend by the Adult Social Care Finance Team.
Action: Recommendation had been fully implemented and signed off as complete by Veritau on 5 December 2024.
- Recommendation Three: The Council did not record the prevalence of family members employed as personal assistants.
Action: Implemented - pending audit sign off.
- Recommendation Four: Direct Payment applicants were not informed of the legal requirements relating to misspending Direct Payment funds.
Action: Implemented - pending audit sign off.

During discussion, several points were raised, as follows:

- A Member referred to recommendation one and queried the reasons as to why reviews were not being carried out already, and what financial implications the employment of additional staff would have on the existing budget. In response, it was explained that the combination of high demand and staff vacancies had resulted in delays in reviewing, which was a common issue for Local Authorities. The audit review had identified this, and resources would be targeted accordingly. There was an urgency to complete this work; monies would be derived from capital funding.
- A Member queried whether there was a minimum number of hours required for the appointment of personal assistants. In response, it was confirmed that there was no minimum, but it may have been difficult to appoint an assistant for a lower number of hours.
- In response to a query regarding national benchmarking around this issue, it was explained that further consideration would need to be given as to how this could be best achieved. It was possible that some regional data could be acquired, but there was no public benchmark. The Council's position was not unusual, and the Director was comfortable with how teams currently operated within the department. It was acknowledged that a plan was needed to ensure that progress was sustained once temporary staff had left the authority.
- A Member referred to family members employed as personal assistants. Consideration was given to possible changes in circumstances that could arise, and the legal implications of this. In response, it was explained that a Direct Payment policy could not be set-up for two living in the same household, though it was acknowledged that financial abuse could happen. It was highlighted that, from the perspective of officers in the Local Authority, an empathetic but legally compliant approach was always taken when providing support. A short discussion ensued in relation to informal carers and the vital support that they provided to their family members and friends. Consideration was given to the rights of carers in providing this support.

NOTED

TREASURY MANAGEMENT MID-YEAR REVIEW 2024/5

The Director of Finance submitted a report, the purpose of which was to:

- Provide an update to the Audit Committee on performance in relation to the Council's borrowing, investments, and cash-flow for the 2024/25 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It was to be read in conjunction with the Council's Revenue and Capital Quarter Two Budget Monitoring Report for 2024/25 to understand the full financial position of the Council.
- Provide the mid-year Prudential Indicators results for 2024/25 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which was best practice in terms of governance in this area.
- Provide information on the treasury management strategy, position on capital financing and prudential indicators, and whether these were contributing to the effective management of the Capital Programme and the resources allocated to pay for these, as part of the revenue budget process.

The Head of Finance and Investment explained that this was a complex report and subject matter; a brief introduction to treasury management was provided. As the role of the Audit Committee would be developed to look at treasury management and review prudential indicators to consider issues, it was explained that training would be provided to Members.

During discussion, several points were raised, as follows:

- Reference was made to the Council's Capital Programme and the importance of establishing this as both robust and deliverable. There was a requirement that any included schemes were to be monitored and reported on to the Executive. Reference was made to delivery of the programme across the year; the sale of assets for transformation and to finance capital programmes; the current capital budget and associated thresholds; the establishment of prudential indicators; and government grant funding.
- The importance of Value for Money and affordability.
- In response to a query regarding the projection of interest rates, it was explained that these were a combination of principal and interest. An external advisor was appointed to assist with budget calculation as they monitored the wider economy and forecasted base and borrowing rates; rates were influenced by varying factors. Assumptions and estimates were made, with consideration given to commitment and sustainability. It was important that cash was protected, and plans put in place to help ensure that appropriate decisions were being made when utilising public funds.
- Transparency and public accountability was key. Reference was made to issues experienced by other Local Authorities across the country where this had failed to be adhered to.
- In response to an enquiry, it was confirmed that a dedicated Grants Officer had been appointed and was now included in the departmental structure.
- A Member referred to the refinancing of loans and queried whether rates were ever negotiated upon. In response, it was indicated that, yes, negotiation was undertaken, when possible, i.e. when loan refinance opportunities were presented. Debt refinancing was considered regularly with financial professionals.

NOTED**INTERNAL AUDIT CONSULTATION REPORT 2025/26**

The Head of Internal Audit, Veritau, submitted a report, the purpose of which was to provide Members with information on the arrangements for developing the 2025/26 internal audit work programme. The report also sought the views of the Committee on areas that should be considered a priority for audit in 2025/26.

Internal audit provided independent and objective assurance and advice on the Council's operations. It helped the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.

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

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

The consultation report was shown at Appendix One. It contained information on the approach taken in creating the work programme, together with background on the internal audit opinion framework. It also asked the Committee to suggest any areas it believed should be considered for inclusion in the work programme.

Members were directed to page 106 of the agenda pack, which posed several questions for consideration.

During discussion, several points were raised, as follows:

- A Member referred to the Council's cyber security and queried resilience around this issue. In response, it was indicated that succession planning was key. A subsequent query relating to governance was raised; in response it was indicated that MBC governance applied.
- A Member commented on the potential impact of flooding and the requirement to look at the Council's resilience if it was a known risk.
- A Member referred to a previous suggestion made in relation to officers' declarations of interest. The Head of Internal Audit advised that this was currently being looked into.
- A Member referred to the Middlesbrough Municipal Golf Centre and queried its future. The Mayor explained that there were several potential options available in respect of this, i.e. it could be sold, leased out, or operated by a third party. In terms of the latter, it was a separate arrangement from Everyone Active, and there had been expressions of interest from possible operators. The Head of Policy, Governance and Information advised that a written response would be obtained, for the Committee, from the Director of Regeneration.
- A Member referred to an item agreed last year that referred to control over items that were not intrinsically valuable and queried when these would be looked into. In response, Members heard that matters related to information security, which would be looked at during 2025/26.
- A Member suggested that one area for the internal audit work programme could be Revenue and Benefits, specifically collection of Housing Benefit overpayments and Council Tax debt. Consideration was given to the split by landlords versus tenants/homeowners. The Chair of the Overview and Scrutiny Board (OSB), also a Member of the Audit Committee, indicated that matters such as debt recovery, Houses of Multiple Occupation (HMOs), and Selective Landlord Licensing (SLL) could potentially be looked at by OSB. The Head of Internal Audit indicated that an audit of Council Tax was on the list.

AGREED that:

- 1. A response to the query raised regarding the Middlesbrough Municipal Golf Centre would be obtained from the Director of Regeneration.**
- 2. The information, as presented, was noted.**

INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORTS

The Head of Internal Audit, Veritau, submitted a report, the purpose of which was to provide Members with an update on the delivery of internal audit and counter fraud work, and on reports issued and other work completed since the last update to the Audit Committee. The Council's internal audit and counter fraud work programmes were approved by Audit Committee in July 2024.

The Head of Internal Audit, Veritau, and the Assistant Director of Corporate Fraud, Veritau, were in attendance at the meeting to present the report.

It was explained that internal audit provided independent and objective assurance and advice on the Council's operations. It helped the organisation to achieve overall objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control, and governance processes. The work of internal audit was governed by the Accounts and Audit Regulations 2015 and relevant professional standards.

Fraud was a significant risk to the public sector. Annual losses were estimated as being as high as £59 billion in the United Kingdom. Veritau was engaged to deliver a counter fraud service for Middlesbrough Council, which helped the Council to mitigate fraud risks and to take appropriate action where fraud was suspected.

The internal audit progress report was shown at Appendix One. Members were guided through the annexes, which incorporated a summary of current work in progress; internal audit priorities for the year; completed work; and follow-up of previously agreed audit actions.

The counter fraud progress report was shown at Appendix Two. A range of work was detailed including activity to promote awareness of fraud; work with external agencies; and the result of investigative work undertaken for the Council. Reference was made to work carried out in October during cyber security month, together with work currently being undertaken with the Department for Work and Pensions (DWP).

During discussion, several points were raised, as follows:

- A Member referred to other work undertaken in 2024/25 and queried when a report would be provided for this. In response, it was indicated that such reports were not produced.
- A Member referred to grant funding and queried audit practice around this. In response, it was explained that there were no standard, formal reports submitted to the Audit Committee. Certification forms were completed in instances where grant funding conditions had been met and there was satisfaction that funds had been utilised correctly.
- A Member referred to management issues and considered subcontractors, for example in respect of SEND. It was queried whether the report would benefit a scrutiny investigation. In response, it was indicated that the Audit Committee would not determine this as its remit was to look at governance arrangements. The Member advised that the Place Scrutiny Panel was currently looking at home to school transport. The auditor advised that a SEND review had been completed but had not delivered an assurance rating.
- A Member made reference to the TVCA and commented that a scrutiny investigation regarding adult education was being carried out. It was felt that it would be useful if joint projects could be undertaken to avoid duplication of effort, where possible.
- The auditor indicated that a follow-up piece of work in relation to 'no opinion' outcomes would be carried out. Several challenges were considered, which included: complex issues; obtaining the information required; and leadership changes.
- A Member referred to IT and suggested that software updates could be considered as a potential area for review. In response, the Committee heard that compliance with data standards fell within the scope of ICT audits, SILO reports, etc.

NOTED

24/56 **WORK PROGRAMME (STANDARD ITEM)**

A copy of the current work programme for the Audit Committee had been circulated for information. This was a live document that was updated after each meeting.

An additional Audit Committee meeting had been scheduled for 20 February 2025.

NOTED

24/57 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

DIRECTOR OF FINANCE (S.151 OFFICER)

The Committee expressed their thanks to the outgoing Director of Finance and wished her well for the future.

NOTED