



Audit Progress Report

Middlesbrough Council and Teesside Pension Fund

January 2025

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Audit progress

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Middlesbrough Council 2023/24

Accounts

The Council published draft Accounts on 24 September 2024, updated versions have since been uploaded on the website.

As previously reported, we are applying the national backlog arrangement in respect of local authority financial reporting and local audit.

The backstop date for the financial year 2023/24 is 28 February 2025.

We have partially completed the work required to apply the backstop. The main areas of work which are currently outstanding are:

- responses to requests for information from management and those charged with governance; and
- accounts closure processes.

We are holding fortnightly meetings with key finance staff to focus on ensuring responses are timely and we hope to complete detailed testing by the middle of February 2025.

Value for money (VFM) arrangements

We have completed most of our work and drafted and presented our VFM commentary.

At this stage there are no additional matters we wish to raise with Members.

Audit progress

Teesside Pension Fund 2023/24

The Council published draft accounts on 24 September 2024. The predecessor auditor was still completing audit work on the 2021/22 and 2022/23 accounts up to December 2024 so these could be signed in line with the audit backstop dates. The 2022/23 audited accounts were approved by the Audit Committee in December 2024. The audited 2022/23 accounts contained changes to figures for 2022/23 so management have been required to produce a revised set of 2023/24 accounts which reflect these changes. The revised 2023/24 draft accounts were received by external audit on 10 January 2025. As a result, we have limited time available to obtain sufficient appropriate audit evidence before the backstop date in February.

We are currently working on completing work for the 2023/24 accounts. We are aiming to issue an unmodified audit opinion (unless otherwise required) in line with the backstop date of 28 February 2025 but this will require officers and third parties to respond to our information requests thoroughly and quickly. Below is a summary of outstanding areas on the 2023/24 audit engagement:

Review of predecessor auditor file

Review delayed due to 2022/23 sign-off of accounts by predecessor auditor in December 2024. Dates have been agreed with the predecessor auditor to complete this procedure.



Agreement of Opening Balances and Trial Balance to the restated 2023/24 accounts

We currently have copies of the reports from management to facilitate this and are working with management to resolve any outstanding issues.



Journals

We have obtained a copy of the journals listing and have raised queries to support our testing of journals.



Status

Management and TCWG Responses in relation to fraud

We are currently awaiting responses from management and Those Charged with Governance regarding instances of suspected, alleged or actual frauds experienced in the year and the Pension Fund's approach to identifying and mitigating against fraud.



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.

Contributions Receivable

Substantive analytical review procedures and sample testing. One response required for sample testing.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.

Benefits Payable

Lump sums and retirements testing and substantive analytical procedures.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

Payments to and on account of leavers

Sample testing to be performed. Currently awaiting responses to sample items selected.



Audit progress

Investment Purchases and Sales

Samples have been selected for investment purchases and sales. We are currently working with management for sufficient, appropriate supporting evidence.



Investment Income

Samples have been selected for investment purchases and sales. We are currently working with management for sufficient, appropriate supporting evidence.



Investment assets

- Sample testing of Level 1 and Level 2 investments currently being discussed with management.
- Sample testing of Level 3 investments being discussed with a combination of external fund managers and management.
- Cash deposits: we are currently liaising with counterparties to receive information on any cash deposits held by the Fund.
- Directly Held Property: we are currently discussing the information required for the audit of directly held property investments with Cushman & Wakefield (Property expert) and CBRE (Fund manager).



Financial Instruments

Agreement of disclosures for financial instruments to underlying working papers.



Current assets

We are working with management to obtain a copy of the bank letter as at 31 March 2024 to support our testing of the year-end bank reconciliation.



IAS19 assurance work

Work ongoing to agree information provided to the actuary for IAS19 purposes to underlying working papers.



Audit review and quality control procedures

Completion of manager and engagement lead review procedures is ongoing.



Completion procedures

Audit completion procedures such as review of the final set of financial statements, receipt of the signed letter of representation, review of post balance sheet events and other completion steps depend on progress in the areas highlighted earlier.



Status



Likely to result in a material adjustment or a significant change to disclosures in the financial statements.



Potential to result in a material adjustment or a significant change to disclosures in the financial statements.



Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

02

Publications and other updates

National publications

	Publication/update	Key points
National Audit Office (NAO)		
1	NAO Insight: Achieving environmental improvement and responding to climate change	The NAO has published Achieving environmental improvement and responding to climate change which draws out learning from past NAO reports to identify enablers that are seen as important for tackling the challenges government faces in its environment and climate change work.
2	NAO report: Dangerous cladding: the government's remediation portfolio	The NAO has published its report Dangerous cladding: the government's remediation portfolio which assesses whether the Ministry of Housing, Communities & Local Government's (MHCLG) remediation portfolio in England is completing timely remediation of unsafe cladding at a reasonable cost to the taxpayer.
3	NAO report: The impact of fraud and error on public funds 2023-24	The NAO has published its report The impact of fraud and error on public funds 2023-24 which provides an introduction to the impact of fraud and error on public funds, how public bodies can tackle fraud and error, and the NAO's examination of the topic.
Other		
4	Financial Reporting Council (FRC) – quality of major local audits	Report on the quality of major local audits

National publications and other updates

1. NAO Insight: Achieving environmental improvement and responding to climate change

The NAO has published *Achieving environmental improvement and responding to climate change* which draws out learning from past NAO reports to identify enablers that are seen as important for tackling the challenges government faces in its environment and climate change work.

Scope of the report

In 2020, the NAO carried out two broad reviews of how the government is organised to achieve net zero and its wider environmental goals, including its goal to adapt to a changing climate. Since then, the NAO has examined many of the interventions that it has established to help meet these goals. This has covered individual projects and programmes, for example, on energy efficiency grants and tree-planting, as well as broader portfolios of government's work such as those to decarbonise home heating or improve air quality.

Concluding remarks

Achieving the government's legislative climate change and environmental targets requires sustained and coherent action over successive parliaments, and substantial progress over the next five years. This means that the leadership role of the centre of government and lead departments – the Department for Environment, Food & Rural Affairs (Defra) and the Department for Energy Security & Net Zero (DESNZ) – is critical.

Strong leadership will ensure that the government develops a coherent set of interventions that together succeed in putting the UK on track to achieve its overall targets. Strong leadership also creates the conditions for securing most value from the public and private investment involved.

The scale and complexity of improving the natural environment and responding to climate change means that the government's approach to leadership on these issues needs continued focus and attention. Our work shows that this should include building its approach to culture, strategic direction and integration.

<https://www.nao.org.uk/insights/achieving-environmental-improvement-and-responding-to-climate-change/>

National publications and other updates

2. NAO report: Dangerous cladding: the government's remediation portfolio

The NAO has published its report Dangerous cladding: the government's remediation portfolio which assesses whether the Ministry of Housing, Communities & Local Government's (MHCLG) remediation portfolio in England is completing timely remediation of unsafe cladding at a reasonable cost to the taxpayer. The report examines:

- how well MHCLG has designed its portfolio to maximise the identification and remediation of unsafe buildings;
- whether remediation is progressing as expected; and
- how well MHCLG is managing taxpayers' exposure to remediation costs across the lifetime of the portfolio.

The report concludes that as MHCLG's aluminium composite material (ACM) programme draws to a close, remediation works on most tower blocks over 18 metres with the most dangerous form of cladding are now complete or nearing completion.

However, the scale of the cladding crisis has proved much bigger than the government initially understood, and its interventions have expanded as a result. For the many thousands of residents who have been living in fear of fire, facing costly remediation bills, struggling to access mortgage finance or affordable insurance, or unable to move, leaseholder protections and the promise of a way forward for all buildings over 11 metres are welcome.

The principle of 'polluter pays', where the costs of remediation works are met by those responsible, was established to relieve pressure on the public purse, improve public value and protect leaseholders from paying to fix a problem that is not of their making. However, there is a long way to go before all affected buildings are made safe, and there are risks MHCLG must address if its approach is to succeed.

Of the 9,000 to 12,000 buildings over 11 metres that MHCLG estimates will need remediating, 4,771 buildings have been identified and included in its portfolio, leaving up to 60% of affected buildings still to be identified. Of those identified, remediation work has yet to start on half and has completed on around a third. Of all the buildings that may be in scope, work has completed on only 12–16%. The pace of remediation works is behind where MHCLG expected it to be. Putting the onus on developers to pay and introducing a more proportionate approach to remediation should help to protect taxpayers' money.

However, this approach also created grounds for lengthy disputes between developers and freeholders over the scope of works required and these disputes are causing delays. To stick to its £5.1 billion cap in the long run, MHCLG needs to ensure that it can recoup any funds it spends above this through successful implementation of the proposed Building Safety Levy. MHCLG has been slow to address fraud risks and must ensure its incentivisation and enforcement activities encourage reluctant freeholders to engage and ensure the industry is not stalling.

Seven years on from the Grenfell Tower fire, there has been progress, but there also remains considerable uncertainty about the number of buildings needing remediation, the cost of remediating them, and how long it will take to fix them and to recoup spending in the long run.

<https://www.nao.org.uk/reports/dangerous-cladding-the-governments-remediation-portfolio-3/>

National publications and other updates

3. NAO report: The impact of fraud and error on public funds 2023-24

The NAO has published its report The impact of fraud and error on public funds 2023-24 which provides an introduction to the impact of fraud and error on public funds, how public bodies can tackle fraud and error, and the NAO's examination of the topic.

This overview summarises the key information and insights from the NAO's work. It includes:

- what we mean by fraud and error, and how government is structured to tackle it
- the fraud and error risk management cycle
- fraud and error against government, including in benefits, taxes and COVID-19 fraud
- emerging threats and opportunities
- what to look out for when thinking about fraud and error

<https://www.nao.org.uk/overviews/the-impact-of-fraud-and-error-on-public-funds-2023-24/>

4. Financial Reporting Council (FRC) - FRC report on quality of major local audits

The FRC has published its report Quality of major local audits which contains the following sections:

- Explains the changes the FRC has made in its inspection programme to ensure its approach supports the Government's measures to address the backlog in local government. This includes extending the FRC's commitment not to perform routine inspections in local government up to and including the financial year ended 31 March 2024, unless there is a clear case in the public interest to do so.
- Reports the findings of the FRC's most recent cycle of audit quality inspections which included 8 NHS and 2 local government audits. This is at a sector wide and not individual firm level.

https://www.frc.org.uk/documents/7808/Major_Local_Audits_-_Audit_Quality_Inspection_2024.pdf

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