

MIDDLESBROUGH COUNCIL	
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Report of:	Corporate Director Finance (S151 Officer), Andrew Humble
Submitted to:	Audit Committee
Date:	19 February 2026
Title:	Approval of the Audited Statement of Accounts – 2024/25
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)
<p>That the Audit Committee:</p> <ul style="list-style-type: none"> • Approve the Audited Statement of Accounts (SOA) for the financial year 2024/25, as set out at Appendix 1, taking into the external auditor's audit completion reports, the Annual Governance Statement, and management representations on the financial statements presented. Members should note the issue on adopted roads raised by the external auditor and officers' views about retaining this in the accounts at present. • Note that once these accounts are published on the Council website, this is the end of the accounting and financial processes for the financial year 2024/25 and these accounts are now closed.

Executive summary
<p>The purpose of this report is to approve the audited statement of accounts for the 2024/25 financial year following audit. Members need to note the audit opinions given in relation to the Council financial statements, those of the Teesside Pension Fund, and the value for money assessment.</p> <p>Members will be aware of the backstop arrangements currently in place for local audit and the disclaimed audit opinions given in previous financial years. Three for the Council's financial statements (2021/22, 2022/23 and 2023/24) and one for the Teesside Pension Fund in 2023/24.</p> <p>The 2024/25 financial year's audit is the second under the external audit arrangements undertaken by Forvis Mazars on our financial statements. The auditors also deliver an opinion on the value for money arrangements within the Council.</p>

The Audit Completion Reports for both the Council and Teesside Pension Fund detail their overall findings to those charged with Governance. They also contain any misstatements (adjusted or unadjusted) within the accounts, and significant issues or deficiencies in relation to internal control, and any other matters that they wish to bring to the attention of those charged with governance in relation to their audit work.

In summary, the Council will be given a **disclaimed audit opinion** on its financial statements for 2024/25, in line with previous years. The Teesside Pension Fund audit is expected to be given an **unmodified audit opinion** if all testing is completed by the back stop date of 27 February 2026. This is a step forward from the previous year's audit.

For the Council, the external auditors have only been able to undertake a high-level balance sheet audit of the financial statements due to the three years of disclaimed audit opinions currently in place. Partial testing has been possible in most areas but there is still some way to go before these can be concluded and all potential risk can be covered. Most of the items raised in the Audit Completion Report for the Council relate to either capital accounting issues or disclosure related matters. The auditors have raised these based on their non-compliance with the CIPFA Accounting Code of Practice. Some items have been adjusted for within the Financial Statements. Others have not due to either their immaterial size or the complexity involved in restating the accounts.

The main area raised for non-compliance is around the accounting treatment of adopted roads and the Council using a proxy basis to determine historic cost. As the net book value in the accounts is material (£21.666m), officers have agreed with the external auditors to retain this amount in the accounts pending further discussion with CIPFA and resolution in 2025/26. The auditors have referred to this issue within their disclaimed audit opinion and Members need to be aware of and approve the accounts on this basis.

On the Value for Money opinion, the results of this work were previously reported to the Committee at its meeting in December. The arrangements around financial sustainability and economy, efficiency and effectiveness are still considered to have significant weaknesses. The qualification on the Council's governance arrangements though has been removed from the 2024/25 financial year.

For the Teesside Pension Fund, the work that was not completed on the 2023/24 audit and led to the disclaimed audit opinion has now been caught up. In addition, a full audit of the 2024/25 accounts has been completed, and an unmodified opinion is expected. Some issues have been raised via the audit completion report. These tend to be mainly disclosure-based matters rather than accounting adjustments.

Following consideration of the audit completion reports, and the letters of representation from the S151 Officer to the external auditors for both the Council and the Pension Fund, Members will be asked to approve the audited Statement of Accounts for the financial year 2024/25.

The updated version of the statement of accounts is attached as **Appendix 1**. This will then be re-certified by the S151 Officer, before signing by the auditors, and publication on the Council website ahead of the backstop date (27 February 2026).

1. Purpose

- 1.1 To approve the Audited Statement of Accounts for the Council for the 2024/25 financial year, prior to the statutory date of 27 February 2026, following external audit.
- 1.2 The Committee should note the disclaimed audit opinion given by Forvis Mazars (FM) on the Council financial statements, and the unmodified opinion expected on the Pension Fund financial statements, as at the 31 March 2025.
- 1.3 The Committee should also note that the work of the external auditors in relation to the value for money arrangements and commentary, around the Council's arrangements for 2024/25.

2. Recommendations

2.1 That the Audit Committee:

- **Approve** the Audited Statement of Accounts (SOA) for the financial year 2024/25, as set out at Appendix 1, taking into the external auditor's audit completion reports, the Annual Governance Statement, and management representations on the financial statements presented. Members should note the issue on adopted roads raised by the external auditor and officers' views about retaining this in the accounts at present.
- **Note** that once these accounts are published on the Council website, this is the end of the accounting and financial processes for the financial year 2024/25 and these accounts are now closed.

3. Background and relevant information

- 3.1 The external auditors are required by the Public Sector Audit Appointments and under the Code of Audit Practice to report to Members, any issues arising from their accounts and value for money audits on an annual basis. The Audit Completion Report to those charged with governance details the significant findings from the external audit process. The individual audit completion reports for the Council, and the Teesside Pension Fund, are on the agenda for Members to discuss and comment on.
- 3.2 Members are aware that central government introduced backstop proposals to tackle the worsening problems on the timeliness of local audits being completed a couple of years ago. The following paragraphs set out a reminder on these issues and how the Council is now progressing in rebuilding confidence in its external financial reporting arrangements.

National Position and backstop legislation

- 3.3 The number of outstanding local authority audit opinions as of 30 September 2023 stood at 918 (almost two on average per local authority in England) and this included many prior year audits. As the backlog of unaudited accounts had reached an unacceptable

level, this led to the Ministry for Housing, Communities and Local Government (MHCLG) introducing measures to address these local audit delays.

3.4 The Accounts and Audit (Amendment) Regulations 2024 came into force on 30 September 2024 and provided statutory 'backstop' arrangements in three phases to help clear the backlog of audits and rebuild assurance.

3.5 The first phase which had a backstop date of 13 December 2024 involved clearing the backlog of historic opinions up to and including the financial year 2022/23. Phase 2 (including the 2023/24 & 2024/25 audits) uses various backstop dates to allow assurance to be rebuilt over several years so as not to cause a recurrence of the audit backlog issues. This is intended to last until the 2027/28 audit. Phase 3 involves reforming the local audit system to address the challenges and ensure timely financial reporting and audit for the sector in the future.

3.6 For Middlesbrough, the Council currently has three disclaimed audit opinions in place for its financial statements (covering the period 2021/22, 2022/23, and 2023/24). The first two were issued by the previous external auditor, Ernst & Young. The disclaimed opinion for the 2023/24 was given by our current auditor, Forvis Mazars. This means that external audit reassurance will take several years to restore in full as the work on establishing the credibility of opening balances for 2024/25 will mean going back to the last set of fully audited accounts at 31 March 2021.

3.7 For the Teesside Pension Fund, their financial statements are part of the Middlesbrough Council statement of accounts due to the Council's role as the administering authority. However, pension funds are required to have their own external audit process and audit opinion separate to the local authority. For the Pension Fund, there is only one disclaimed audit opinion at present, and this relates to the 2023/24 financial year.

3.8 A disclaimed audit opinion means that the external auditors did not have sufficient time to complete all their audit work and enquiries to give a true and fair view on the financial position, performance, and cashflows of the organisation. It does not mean that the accounts are incorrect or there are issues with the accounting systems or processes completed and there could be errors in the financial statements that have not been reported.

Audit Completion Reports

3.9 The Audit Completion Reports for the Council and Pension Fund will be presented to the Committee before this report but in summary the reports will cover the following areas:

- An Audit Results and Findings section highlighting key issues and any misstatements identified in the audit of the financial statements which were not corrected by management, with notes to those misstatements that have been corrected.
- Members are specifically required to consider items that are classified as unadjusted differences that officers propose not to adjust in the accounts. These are attached to the relevant letter of representation given by the S151 Officer for visibility.

- The Value for Money commentary on arrangements in place (council only).
- Forvis Mazars are also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit.

3.10 As a result of the position on the 2023/24 and 2024/25 audits (and previous years) for Middlesbrough Council, and the work required to complete this. The external auditors have determined that they are unable to complete all the necessary procedures to obtain sufficient evidence to provide an opinion on the Council's financial statements as at 31 March 2025, and they have therefore issued a Disclaimed opinion in respect of the Council's accounts.

3.11 The basis of the Disclaimer of opinion can be found in the Audit Completion Report for Those Charged With Governance on the Council. This states that the backstop date and the wider requirements of the local audit system reset mean that Forvis Mazars have not have the required resources or time available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on these financial statements.

3.12 Although this position may be an unsatisfactory one, it is a consequence of the backlog of national audits and the back stop arrangements needed to clear these. There is very little control that either auditors or the finance team at the council could have done to change this outcome due to the historic delays and this is made clear within the Audit Completion Report.

3.13 Particular issues raised by the external auditors on the audit of the Council's financial statements are as follows:

- The accounting treatment of adopted roads. The Council has been adopting roads built by developers for many years in the borough and taking the economic responsibility and maintenance liabilities for these assets going forwards as they join the highways network asset within the local area. These transfers are based on Section 38 agreements under the Highways Act 1980. As a result, these roads have been incorporated these into the balance sheet based on the developer's construction costs as a proxy for the cost if we had built them ourselves. The current net book value of these roads is material at £21.7m. External audit are questioning this accounting treatment as the code of accounting practice expects roads to be recognised based on the historic cost of the asset (i.e. what the Council has spent) and as such this is a nil value. This has not been an issue raised before by previous auditors.
- Given Officer's views that a nil value would not reflect the ongoing benefit of these assets on transition to the Council, we would like to discuss this matter with CIPFA to highlight that this is a current anomaly within the code of practice, given that adopted roads are not specifically considered. This advice will be factored into the preparation of the 2025/26 accounts. Members will need to specifically approve this form of accounting treatment and the values in the accounts. Forvis Mazars have included this within their disclaimed audit opinion given its significant financial value within the accounts.

- Several other capital accounting issues have been raised as part of the external audit. These include indexation of property assets and the impacts on any revaluations carried out, the accounting treatment of investment property and assets held for sale that have been subsequently sold, the accounting treatment of leased buildings, and the treatment of donated assets as part of a leasing arrangement. These are all complex issues and have not been adjusted within the financial statements due to their lack of materiality. Any non-compliance items raised will be considered as part of the accounting treatment for the 2025/26 financial statements.
- There are also several disclosure related non-compliance issues that have been raised by the external auditor. These include presentation of totals within the cash flow statement, presentation of financial amounts owing under lease arrangements, the consistency of both usable and usable reserves to other areas of the financial statements, and other presentation matters on the notes to the accounts. These have been amended within the updated statement of accounts at Appendix 1 where possible.

3.14 The external audit for the Teesside Pension Fund for 2024/25 though is more positive. Although the disclaimed audit opinion was issued, the auditors were only a few weeks away from finishing the audit at the back stop date in February 2026. The outstanding work was mainly around the disclosure of level 3 financial instruments and their values being confirmed.

3.15 This work has now been completed and some elements of the accounts for the pension fund and notes have needed to be restated for the prior year. These are highlighted within the accounts for 2024/25 and within the audit completion report as an adjusted misstatement.

3.16 A full audit of the Teesside Pension Fund accounts has been undertaken by the external auditors for the 2024/25 accounts. Although some residual items are still to be resolved, it is expected that an unmodified true and fair view audit opinion will be given. The auditor manager will give an update at the Committee meeting as to whether this has been achieved.

3.17 One internal control deficiency has been highlighted on the Pension fund audit. This relates to the correct recording of asset valuations within the Council's systems. The auditors are recommending that these processes and checks are reviewed by management to ensure that they are fit for purpose going forwards.

3.18 On disclosure related issues, many amendments have been required to the 2024/25 pension fund accounts. These are set out in pages 22 and 23 of the Audit Completion report and relate to the fund account, accounting policies and several notes to the accounts (mainly affecting notes 13 and 14 on investment assets and financial instruments). Although these do not affect the financial values in the net assets statement, they can give misleading information to the users of the accounts if incorrect. All of these have been amended by management and a lesson learned review will be undertaken ahead of the preparation of the 2025/26 financial statements.

- 3.19 The value for money commentary, including several weaknesses, was presented to Audit Committee on 11 December 2025. The findings on this are repeated in the Council's audit completion report again to enable all the external audit findings for the financial year to be in one report. Members will be aware that due to the previous governance improvement plan, the work of the Middlesbrough Independent Improvement Advisory Board, and ongoing efforts by officers that the governance qualification of the VFM assessment has been lifted during the 2024/25 audit. Significant weaknesses though have still been highlighted in relation to financial sustainability and on the arrangement for securing economy, efficiency and effectiveness in the use of resources. Plans are in place to address these issues going forwards.
- 3.20 Upon consideration of the Auditors Completion Report, Members should then review the letters of representation for the audit process. These are key assurances needed by the external auditor, in terms of the systems, processes, judgements, and compliance arrangements, put in place by management at the Council when preparing the Statement of Accounts and in undertaking the audit. These need to be signed off by the Corporate Director of Finance, as the responsible officer with financial management responsibilities for the Council and Pension Fund, and the Chair of the Audit Committee, on behalf of those charged with governance.
- 3.21 There are two letters of representation required by the auditors for this set of approvals. One for the Council and one for the Pension Fund, representing the financial year (2024/25).
- 3.22 The audited accounts for 2024/25, for both the Council and Pension Fund, can then be approved by the Committee, recertified by the S151 Officer, and then published on the Council's website in line with the regulations. This will mark the end of accounting process for the financial year.
- 3.23 As mentioned earlier, it is likely to take a few financial years to move the Council's financial statements from a set of disclaimed audit opinions to a true and fair view on the financial position. However, it is a very positive step that the accounts for the Teesside Pension Fund have been restored to an unmodified opinion following the 2024/25 audit. The back stop date for the Council on the 2025/26 financial year is 31 January 2027, and we will keep Members informed about progress on the audit once the statement of accounts has been prepared by the end of June.

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

- 4.1 Not applicable due to the statutory nature of the decision being made to approve the accounts for the relevant financial years and this needing to be done by the backstop date of 27 February 2026.

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

Topic	Impact
Financial (including procurement and Social Value)	The audited statement of accounts is the main method of external financial reporting for the Council, with the external audit process giving assurance to Members and other

	<p>stakeholders on the assumptions, estimates, and values contained within this. There are no specific financial implications on the decision being made or the report being presented, beyond those set out.</p>
Legal	<p>The external audit of the statement of accounts for a local authority is a legal requirement under the Accounts and Audit Regulations. Under normal circumstances, these would have been due by 30 November 2025 (for 2024/25 accounts). Due to the national audit backlog, the regulations were amended to introduce a statutory backstop date by which this financial year's audit must be completed by. For these accounts, this is 27 February 2026.</p> <p>Approval of this report by the Committee by the backstop date, following consideration of the external auditors reports and comments, plus the necessary representations from management, allows this statutory requirement to be met.</p>
Risk	<p>The main risk associated with the late completion and publication of the statement of accounts for a local authority, particularly those with a disclaimed (no assurance) opinion, is reputational. However, in the current circumstances there are still many councils in this position across the country. These have had their audit process cut short by the backstop arrangements, through no fault of their own.</p> <p>The accounts have been produced in a professional manner by the internal finance team and have been certified as representing a true and fair view of the Council's financial position by the S151 Officer. Government have also asked external auditors to be clear about this position in their reporting. Assurance on audits of financial statements will be rebuilt over several future reporting cycles.</p>
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no direct implications of this decision on any of these areas.
Reducing poverty	There are no direct implications of this decision on any of these areas.
Climate Change / Environmental	There are no direct implications of this decision on any of these areas.
Children and Young People Cared for by the Authority and Care Leavers	There are no direct implications of this decision on any of these areas.

Data Protection	There are no direct implications of this decision on any of these areas.
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Appendices

1	Audited Statement of Accounts (Middlesbrough Council and Teesside Pension Fund) – 2024/25.
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Background papers

Body	Report title	Date
Audit Committee	Approval of the Audited Statement of Accounts – 2023/24.	20 February 2025
Audit Committee	Approval of the 2021/22 and 2022/23 Audited Statement of Accounts.	5 December 2024

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