

**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on Thursday 19 February 2026.

**PRESENT:** Councillors J Ewan (Chair), D Coupe (Vice-Chair), D Branson, I Morrish, M Nugent, G Wilson and L Young

**ALSO IN ATTENDANCE:** C Andrew (Mazars), M Kirkham (Mazars), T Backhouse (Mazars) E Lambert-Martin (Veritau)

**OFFICERS:** A Johnstone, J Weston, A Wilson, A Humble, R Johansson

25/22 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the building evacuation procedure.

25/23 **DECLARATIONS OF INTEREST**

MEMBER	TYPE OF INTEREST	ITEM/NATURE OF INTEREST
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Coupe	Non-Pecuniary	Non-Executive Director of Border to Coast Pensions Partnership Limited
Councillor Branson	Non-Pecuniary	Spouse is a Member of the Teesside Pension Fund

25/24 **MINUTES - AUDIT COMMITTEE - 11 DECEMBER 2025**

The minutes of the Audit Committee meeting held on 11 December 2025 were submitted and approved as a correct record.

25/25 **LOCAL CODE OF CORPORATE GOVERNANCE ANNUAL REVIEW REPORT**

The Committee considered a report of the Corporate Director of Legal and Corporate Services, presented by the Head of Policy, Governance and Information, on the annual review of the Council's Local Code of Corporate Governance.

The report outlined that the Code is reviewed annually to ensure continued alignment with the CIPFA/SOLACE principles of good governance. It was noted that the 2025/26 review proposed minor updates to reflect current governance arrangements and practices, with no substantive changes to the framework.

Members noted that the Code provides the overarching framework for the Council's governance arrangements and supports transparency, accountability and effective decision-making. It was confirmed that compliance with the Code would continue to be assessed through the Annual Governance Statement.

**AGREED** that:

1. The revised Local Code of Corporate Governance be approved for submission to Full Council.

19 February 2026

2. Full Council be recommended to approve the revised Local Code of Corporate Governance.

25/26

## **ANNUAL ASSURANCE REPORT ON DECISION MAKING 2025**

The Committee considered a report of the Corporate Director of Legal and Corporate Services providing an annual assurance update on the Council's decision-making processes.

The Head of Legal Services presented the report outlining the framework for decision-making within the Council, including the operation of the Constitution, Executive and Officer delegated decisions, and the procedures in place to ensure transparency, accountability and compliance with statutory requirements. It also summarised activity during the period 1 January 2025 to 1 December 2025, including Executive and Officer delegated decisions, training and awareness activity, and scrutiny arrangements.

The Committee noted that the Constitution had been updated during the year and that the decision-making activity continued to be supported by published guidance, reporting mechanisms and Member training. It was also noted that no call-in requests had been received during the reporting period.

### **AGREED that:**

1. The information provided regarding the Council's decision-making processes was noted.

25/27

## **RISK MANAGEMENT - BIENNIAL STRATEGIC RISK REGISTER REVIEW**

The Committee considered a report of the Chief Executive providing the biennial review of the Council's Strategic Risk Register and the arrangements in place to manage and monitor strategic risks.

Members were advised that the Committee's Terms of Reference provided for oversight of the Council's strategic risks and the governance arrangements in place to manage them. It was noted that the Council maintained a Strategic Risk Register which was subject to regular review and monitoring, with a rolling programme of work enabling the Committee to undertake deeper consideration of the governance arrangements in place to manage specific risks.

The report set out the current Strategic Risk Register, including details of individual risks, the raw risk score, likelihood and impact assessments, current risk score and the target risk score the Council was seeking to achieve through mitigation measures.

Members were advised that the strategic risk scheduled for detailed consideration at the meeting had been deferred as the relevant Officer was required to support a major event. The Committee was invited to identify areas from the Strategic Risk Register it may wish to consider at future meetings.

During discussion, reference was made to the risks relating to the Tees Valley Combined Authority. Members noted that improvements had been made to governance arrangements and that collaborative working arrangements had improved. It was suggested that the risk score associated with this area may reduce in the future, Officers advised that the current score remained under regular review. It was likely that the current score would not lower while the Tees Valley Combined Authority was subject to Best Value Notice.

In identifying risks which the Committee may wish to consider in greater detail at a future meeting, reference was made to Strategic Risk 17 relating to projects led by the

19 February 2026

Tees Valley Combined Authority (TVCA), and its Mayoral Development Corporation (MDC).

**AGREED** that:

1. The arrangements in place to manage the Strategic Risk Register within the Council and the progress made be noted.
2. The information provided be accepted as assurance that the governance of the Strategic Risk Register is suitable.
3. The governance arrangements in place for risks relating to the Tees Valley Combined Authority (TVCA), and its Mayoral Development Corporation (MDC), be presented to the Committee for detailed consideration at the June 2026 meeting.

25/28

## **BUSINESS CONTINUITY ANNUAL ASSURANCE REPORT 2025**

The Committee considered a report of the Chief Executive which outlined the Council's approach to Business Continuity Management and provided an update on activity undertaken during the previous year together with planned activity for 2026.

The report outlined assurance that the Council had robust arrangements in place that ensured the continued delivery of critical services in the event of disruption, in accordance with the requirements of the Civil Contingencies Act 2004.

The Head of Chief Executive's Department introduced the report and advised that since the report had been issued, internal audit had undertaken a review of the Council's business continuity arrangements, and no issues had been identified. It was noted that the internal audit report remained in draft form.

Members were advised that a range of activities had been undertaken during the previous year to test and strengthen the Council's business continuity arrangements. This included joint training exercises between the Emergency Management Response Team and the Business Continuity team, which had tested the Council's relocation arrangements and response to potential disruption scenarios.

The Committee heard that testing had been undertaken across all Directorates to ensure key systems remained operational in the event of disruption. Officers reviewed and updated documentation across the organisation to ensure it remained aligned with best practice and reflected organisational changes. Resilience testing had also been undertaken on the Council's two data centres to ensure systems continued to function effectively and to identify potential weaknesses. Additional equipment had also been procured during the year to further strengthen resilience arrangements.

Members were informed that exercises had been undertaken with partner organisations across the Cleveland area to test coordinated responses to potential incidents. Scenario-based exercises had also been undertaken to test decision-making processes and response arrangements. The Council's Pandemic Plan had been used as a template for planning coordinated responses to major incidents.

The Committee was advised that the Council had also worked with the Regional Cyber Crime Unit to undertake further testing of ICT protocols and resilience arrangements, including testing system thresholds and ensuring arrangements met the standards expected of Category 1 responders.

Members acknowledged the work undertaken and commented that it was positive to see planning arrangements being tested against a range of potential emergency situations, including incidents affecting Council buildings such as fire or chemical release scenarios. Officers clarified that while internal scenario testing took place to

19 February 2026

ensure critical services could continue to operate in such circumstances, detailed scenario planning was not shared in public domain due to the sensitive nature of the information.

During the discussion, Members also noted recent incidents which tested elements of the Council's business continuity arrangements, including ICT security incidents and flooding events. It was reported that the Council's incident response processes had proven effective in responding to such situations and that learning from these events had been incorporated into ongoing resilience planning.

Members were advised that the progress made during the previous year, together with the testing and training undertaken, provided assurance that the Council's business continuity arrangements remained suitable and effective.

**AGREED** that:

1. The arrangements in place to manage Business Continuity and the progress made over the last year be noted.
2. The information provided be accepted as assurance that appropriate Business Continuity arrangements are in place.

25/29

### **PRUDENTIAL INDICATORS 2026/27 TO 2029/30 AND TREASURY MANAGEMENT ANNUAL STRATEGY REPORT 2026/27**

The Committee considered a report of the Corporate Director of Finance outlining the Prudential Indicators for 2026/27 to 2029/30, the Treasury Management Strategy for 2026/27, and the Minimum Revenue Provision (MRP) Policy).

The Committee was advised that the framework had been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA), Prudential Code and Treasury Management Code, together with requirements of the Local Government Act 2003.

Members heard that responsibility for the implementation and monitoring of treasury management arrangements was delegated to the Corporate Director of Finance, with operational delivery undertaken by the Head of Finance and Investment, in accordance with approved treasury management practices. The Audit Committee was responsible for ensuring effective scrutiny of treasury management strategy and policies.

The Committee was advised that the Council's treasury management approach prioritised security and liquidity over yield, with investments undertaken prudently and in line with counterparty criteria. Credit ratings were monitored on an ongoing basis, with investment decisions informed by treasury advisors and market intelligence.

In respect of investments, Members noted that:

- Specified investments were limited to high credit quality bodies, short-term in nature and denominated in sterling.
- A minimum of 90% of total investments must fall within the specified category.
- The maximum investment with any one counterparty was 15 million (with no limit for the UK Debt Management Office).
- Non-specified investments were limited to 10% of total investments, with a maximum of £3 million per counterparty and a maximum duration of three years.

The Committee noted that borrowing activity would be undertaken prudently, balancing cost and risk, and that the Council continued to utilise internal borrowing where appropriate.

19 February 2026

Members were further advised that the Minimum Revenue Provision (MRP) Policy required the Council to set aside a prudent level of revenue to repay borrowing. For 2026/27, the Council intended to apply the 2% annuity method for both supported and unsupported borrowing. It was noted that any changes to the policy would require approval by full Council.

The Committee was advised that the Treasury Management Strategy had been approved by full Council and formed part of the Medium-Term Financial Plan for the forthcoming financial year and the following four years. It was acknowledged that the framework was complex but a fundamental element of the Council's financial governance and sustainability.

Members discussed the scale of borrowing and the associated revenue implications, including the cost of servicing debt through interest and principal repayments. It was noted that borrowing supported delivery of the capital programme over several years and that the level of debt must be considered alongside the Council's ability to finance it sustainably.

The Committee heard that the treasury management activity relied on maintaining sufficient cashflow and liquidity to meet the Council's obligations, including payments to suppliers and employees, whilst managing income and borrowing requirements effectively.

Members discussed the relationship between capital investment and revenue budgets, noting that capital expenditure could not be used to fund day-to-day services and must be affordable within the Prudential Code framework. It was emphasised that prudential indicators provided assurance on affordability, sustainability and the impact of borrowing on the Council's finances.

Discussion also took place regarding:

- The level and the profile of external borrowing over the medium term, including increases in the early years of the capital programme.
- The use of capital receipts from asset sales to reduce borrowing requirements where possible.
- The affordability of future borrowing levels and the long-term financial implications.
- The level of uncertainty in later years of the Medium-Term Financial Plan.
- The importance of benchmarking against other local authorities.

Members also raised the potential for earlier engagement in the development of the capital programme and treasury strategy, noting that additional scrutiny at an earlier stage could support improved understanding and decision-making.

The Committee discussed the Council's approach to managing debt, including opportunities to manage debt, including opportunities to repay debt where appropriate, and the importance of maintaining prudent limits within the authorised borrowing limit.

In respect to governance and risk, Members were advised that appropriate arrangements were in place, supported by internal audit, and further work would continue to strengthen risk management and reporting arrangements.

**AGREED** that:

1. The Prudential Indicators for 2026/27 to 2029/30 be noted.
2. The Treasury Management Strategy Statement for 2026/27, including the Annual Investment Strategy, be noted.

19 February 2026

3. The Treasury Management Policy Statement and governance arrangements be noted.
4. The limits and criteria for specified and non-specified investments be noted.
5. The Minimum Revenue Provision (MRP) Policy for 2026/27 be noted.
6. The information provided be accepted as assurance that the Council's treasury management arrangements were prudent, sustainable and supported effective governance.

25/30

### **FAILURE TO PREVENT FRAUD - NEW LEGISLATION**

A report from the Corporate Director of Finance was presented informing Members of the new Failure to Prevent Fraud offence introduced under the Economic Crime and Corporate Transparency Act 2023, which came into force on 1 September 2025.

The Committee was advised that the offence applies to large organisations, including local authorities, and creates potential liability where fraud is committed by an associated person for the benefit of the organisation, unless reasonable prevention procedures are in place.

Members were informed that the Council met the relevant criteria to fall within scope of the legislation and that a self-assessment had been undertaken against Home Office guidance to review existing arrangements.

The report outlines that a range of governance, risk management and internal control measures were already in place, including fraud risk assessments, policies, training and monitoring arrangements. It was noted that the likelihood of an offence occurring was considered low, however the potential financial and reputational impact would be significant.

The Committee was advised that further work was underway to strengthen arrangements, including the development of an action plan, enhancements to training and communication, and a review of controls in higher-risk areas.

Reference was made to the six key principles set out in Home Office guidance, including top-level commitment, risk assessment, proportionate procedures, due diligence, communication and training, and ongoing monitoring and review.

The Committee noted that the new requirements had been incorporated into the Council's risk management framework, with the S151 Officer identified as the lead, and that updates would be provided as the action plan progressed.

#### **AGREED that:**

1. The content of the briefing note from the Internal Auditor on the Failure to Prevent Fraud legislation be noted.
2. The arrangements in place and the ongoing actions to minimise the risk of fraud be noted.

25/31

### **INTERNAL AUDIT WORK PROGRAMME CONSULTATION 2026/27**

The Committee received a report from the internal auditor outlining the proposed approach to developing the Internal Audit Work Programme for 2026/27 and seeking Members views on areas of priority.

Members were advised that the programme is developed in accordance with Public Sector Internal Audit Standards and is risk-based, aligning audit activity with the Council's strategic objectives, key risks and priorities.

19 February 2026

It was noted that the proposed approach is informed by the Council's corporate risk register, organisational objectives, financial position, and ongoing transformation activity, as well as engagement with senior management and the Audit Committee.

The Committee was informed of the opinion framework used by internal audit, which brings together the audit principles, key assurance areas, corporate risks, and Council ambitions to determine audit priorities. It was noted that this framework ensures audit coverage is focused on areas of greatest risk and importance to the Council.

Members were advised that the report represented the first stage of consultation, and that a draft Internal Audit Work Programme would be presented to the Committee for approval at its April 2026 meeting.

During discussion, Members noted the eleven key assurance areas and were invited to identify any specific areas they wished to be prioritised within the 2026/27 programme.

The Committee discussed the proposed allocation of internal audit and counter fraud days. It was noted that approximately 555 internal audit days and 250 counter fraud days were currently allocated, with an anticipated increase in counter fraud resource. It was further noted that a business case would be brought forward in due course regarding additional capacity.

Members discussed the overall capacity of the internal audit function, including the potential to increase audit days through additional staffing or partnership working arrangements across multiple councils. It was noted that capacity may need to flex in response to emerging risks during the year.

In considering priority areas, Members highlighted several areas of focus, including:

- Strategic planning and delivery of Council Plan objectives.
- IT governance and cyber security.
- Recruitment and retention, including reliance on agency staff.
- Housing regulatory compliance.
- Waste management.
- Risk management, including disaster recovery, health and safety, and flooding.
- Asset management, including repair and maintenance.

Members also noted ongoing pressures within finance, including staffing capacity, and were advised of previous audit findings relating to value for money arrangements and challenges in obtaining sufficient assurance in certain areas.

It was noted that the volume of audit work undertaken had increased compared to the previous year, including work relating to the balance sheet.

**AGREED** that:

1. The approach to developing the Internal Audit Work Programme for 2026/27 be noted.
2. The comments made in respect of areas for consideration within the programme be noted.

The Committee received the External Audit Completion Report presented by the Council's external auditors.

Members were advised that the report set out the outcome of the audit of the Statement of Accounts for the year ended 31 March 2025, including key findings, identified risks,

19 February 2026

control deficiencies, amendments to the accounts, audit fees, and value for money arrangements.

It was noted that the audit had been undertaken in the context of statutory backstop arrangements, and that the auditors intended to issue a disclaimed opinion due to their inability to obtain sufficient appropriate audit evidence in several areas prior to the backstop date.

The Committee was informed that the audit remained incomplete, with outstanding work in relation to elements of the financial statements, including property, plant and equipment, pensions and other balance sheet areas.

Members noted that the auditors had identified deficiencies in internal control, including weaknesses in IT controls relating to user access, privileged access and password management. It was further noted that, due to the stage reached in the audit, the findings reported may not represent a complete record of all deficiencies.

The Committee considered the summary of amendments to the financial statements processed by management, together with several unadjusted misstatements, which had been assessed as not material, individually or aggregate. Members also noted several disclosure amendments, which were reflected in the updated draft financial statements.

In response to questions, Members received clarification on the status of the audit, including what work had been completed and what remained outstanding, and the reasons why sufficient audit evidence had not been obtained in certain areas prior to the backstop date.

Members discussed the significant findings, including matters relating to capital finance arrangements and the absence of a permanent Chief Accountant during the period, and were advised that the management had taken steps to address these issues.

The Committee also sought clarification on identified misstatements, noting that these had not been adjusted within the accounts but had been reviewed by management and assessed as not material.

Members were advised that any changes arising from the completion of outstanding audit work would be reflected in an updated Letter of Representation, which would be reviewed and signed by the Chair of the Audit Committee and Corporate Director of Finance.

Discussion also took place in relation to council tax and collection performance, including the approach to bad debt provision, the need for regular review of collectability, and trends in collection rates over recent years. Members were advised that collection performance remained broadly consistent, and that the Council continued to review its approach to provisions on an ongoing basis.

Members were advised of the auditors' work on value for money arrangements, including the assessment of the Council's arrangements for financial sustainability, governance, and improving economy, efficiency and effectiveness.

It was noted that the auditors had identified significant weaknesses in arrangements, including:

- Financial sustainability, including reliance on exceptional financial support and ongoing budget pressures.
- Governance arrangements.
- Performance management and delivery against strategic priorities.

19 February 2026

Members were advised that recommendations for improvement had been made and would be reported within the Auditor's Annual Report. The Committee also considered the proposed audit fees, including additional work required in relation to value-for-money arrangements and the impact of backstop arrangements.

It was further reported that, as the audit remained incomplete:

- The Statement of Accounts had not been finalised.
- The Letter of Representation had not been signed.

Members considered the report and the explanations provided by the external auditors in respect of the audit findings, outstanding work, and proposed audit opinion.

**AGREED** that:

1. The External Audit Completion Report be noted.
2. The Statement of Accounts be approved, subject to any final amendments arising from completion of the audit.
3. The Chair of the Audit Committee and the Corporate Director of Finance be authorised to approve and sign the final letter of representation.

25/33

### **TEESSIDE PENSION FUND AUDIT COMPLETION REPORT 2024/25**

The Committee received the Teesside Pension Fund Audit Completion Report for the year ended 31 March 2025 presented by the Council's external auditors.

Members were advised that the current position represented a substantial improvement on the previous year, when the auditors had been unable to issue an opinion. Members heard that a considerable amount of work had been undertaken during 2024/25 to address historic issues, supporting the audit process, and strengthen the overall position of the Fund.

Members were advised of the status of the audit and key matters arising from the auditors' work, including:

- Progress made in resolving historic audit issues and improving the evidential position supporting the accounts.
- Work undertaken in relation to Level 3 investments and associated valuation work.
- Asset valuations and related disclosures.
- Cash deposits and custodian reporting arrangements.
- Financial instrument disclosures.
- The review of internal control matters and issues identified in prior years.
- The remaining work required to conclude the audit.

It was noted that several matters previously identified had either been resolved or had improved significantly during the year. Members were advised that some matters remained subject to final audit procedures, final review, and any consequential amendments to the accounts or disclosures.

The Committee also noted the matters set out within the appendices to the report, including the draft management representation letter and draft audit report, together with the internal audit control conclusions identified by the auditors.

In relation to internal control matters, Members were advised of recommendations made in respect of:

19 February 2026

- Review arrangements supporting submission of information to the Fund actuary.
- Retention of evidence supporting Pension Fund membership information at key dates.
- Declarations of interests from Pension Fund members.

Members noted the management responses provided and the actions proposed in respect of those matters.

It was further reported that:

- The audit remained in progress.
- The Statement of Accounts had not yet been finalised.
- The Letter of Representation had not yet been signed.

Members considered the report and the explanations provided by the external auditors in respect of the audit findings, outstanding work, and proposed audit opinion.

**AGREED** that:

1. The external audit completion report for Teesside Pension Fund for the year ended 31 March 2025 be noted.
2. The Statement of Accounts be approved, subject to any final amendments arising from completion of the audit.
3. The Chair of the Audit Committee and the Corporate Director of Finance be authorised to approve and sign the final Letter of Representation.

25/34

#### **MIDDLESBROUGH COUNCIL LETTER OF REPRESENTATION 2024/25**

The Committee considered the draft Letter of Representation of the Corporate Director of Finance, in respect of the audit of the Council's Statement of Accounts for the year ended 31 March 2025.

Members noted that the Letter of Representation is a standard requirement of the external audit process, confirming management's responsibilities and representations in relation to financial statements.

Members noted the draft Letter of Representation, including reference to unadjusted misstatements identified during the audit, and that the document would be finalised following completion of the audit.

**AGREED** that:

1. The draft Letter of Representation be noted.
2. The Chair of the Audit Committee and the Corporate Director of Finance be authorised to approve and sign the final Letter of Representation.

25/35

#### **TEESSIDE PENSION FUND LETTER OF REPRESENTATION 2024/25**

The Committee considered the draft Letter of Representation of the Corporate Director of Finance, in respect of the audit of the Teesside Pension Fund Statement of Accounts for the year ended 31 March 2025.

Members were advised that the Letter of Representation was a standard requirement of the external audit process, confirming management's responsibilities and representations in relation to the financial statements, accounting records and disclosures.

19 February 2026

The Committee noted the content of the draft Letter of Representation, including the representations made in respect of accounting records, estimates, related party transactions, fraud and error, compliance with laws and regulations, and going concern.

It was further noted that the audit remained in progress and that the Letter of Representation would be finalised following completion of the remaining audit procedures.

**AGREED that:**

1. The draft Letter of Representation be noted.
2. The Chair of the Audit Committee and the Corporate Director of Finance be authorised to approve and sign the final Letter of Representation.

25/36

**APPROVAL OF THE AUDITED STATEMENTS OF ACCOUNTS 2024/25**

The Committee considered a report of the Corporate Director of Finance in relation to the approval of the audited Statement of Accounts for Middlesbrough Council for the year ended 31 March 2025.

Members were advised that the purpose of the report was to update the Committee on the position reached in relation to the Audited Statements of Accounts, including the outstanding matters remaining, and to seek approval of the accounts subject to completion of the remaining audit and journal adjustments.

The Committee noted that the report also sought authority for the Chair of the Audit Committee and the Corporate Director of Finance to approve and sign the final Statement of Accounts, Letter of Representation and associated audit documentation once the remaining matters had been concluded.

**AGREED that:**

1. The position reached in relation to the audited Statement of Accounts for 2024/25 be noted.
2. The Statement of Accounts for 2024/25 be approved, subject to completion of the remaining audit procedures, journal adjustments and any resulting non-material amendments.
3. The Chair of the Audit Committee and the Corporate Director of Finance be authorised to approve and sign the final Statement of Accounts, Letter of Representation and associated audit documentation.

25/37

**AUDIT COMMITTEE 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.

25/38

**ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.