

MIDDLESBROUGH COUNCIL

Report of:	Corporate Director of Finance (S151 Officer)
Submitted to:	Audit Committee
Date:	25 June 2026
Title:	Outcome of the Review of Internal Audit
Report for:	Decision
Status:	Public
Council Plan priority:	Delivering Best Value

Proposed decision(s)

That the Audit Committee:

- **NOTES** the findings of the Section 151 Officer's review of the current internal audit arrangements in place at the Council.
- **APPROVES** the additional investment in internal audit days to that set out in the table at paragraph 3.12, subject to those resources being available from the Council's medium term financial plan. This will ensure that the Council buys internal audit services at the average level for unitary authorities.
- **NOTES** that a revised work programme with an additional 170 days for 2026/27 will be produced by Veritau for consideration at the Committee's next meeting in July.

Executive summary

Following recommendations made as part of the Peer Review challenge during early 2025, and to ensure that value for money is being derived from the current contract with Veritau Public Sector Ltd, the internal audit arrangements at the Council have been reviewed.

The current contract with Veritau commenced in January 2020, with a ten-year term and an option to extend for a further five years thereafter. The existing arrangement establishes a medium to long term partnership with the internal audit provider to assess the quality and level of governance and risk management within the organisation. At present, an annual number of 555 days are being purchased at an annual cost of £184k.

The amount of internal audit days per annum has remained unchanged for many years and is still at the same level as that provided by the predecessor provider Tees Valley Audit and Assurance a decade ago. During this time, the Council has been through a variety of challenges: the Covid-19 pandemic, governance challenges and leadership changes, statutory external audit recommendations, as well as a fragile financial position with a low level of usable reserves. The level of risk involved with these and implicit within Council activities has been volatile and at a high level for some time. The organisation now is very different to what it was a decade ago.

As a result of this and some of the commentary made as part of the Peer Review, in relation to the effectiveness and value for money being achieved on the internal audit contract, discussions have been held over several months between the S151 officer and senior management at Veritau about next steps. This has concluded that the level of investment on the internal audit function by the Council has fallen behind that of many other local authorities. That and a lack of capacity within the Council to pro-actively manage the current contract are seen as the primary reasons why the work programme, impact, and visibility of internal audits need to be strengthened.

A proposal is made within this report to increase the level of investment with Veritau over the course of the medium-term financial planning (to 2029/30) from the current level of 555 days per annum to 1,000. This would bring our investment in line with the average for other unitary authorities. An increase of 80% on the existing programme. This would be done on a stepped basis to allow sufficient time for the additional days to be discussed, planned and embedded accordingly.

Although further discussion is required on exactly what this additional investment will buy for the Council, the main emphasis will be on increasing the profile of internal audit within Middlesbrough, using internal audit more as a critical friend/consultant rather than just for process and system reviews, and additional reporting/contact with LMT, Audit Committee, Heads of Service and within Directorates.

Some examples of the additional audit work that could be undertaken are given in paragraph 3.14 of this report. The cost of the additional days is £154k over the four-year period, taking the total cost to £338k per annum, and could be funded via a growth bid to the medium-term financial plan. The purchase of additional internal audit days would be aimed at increasing the quality and depth of the governance processes and knowledge within the organisation and thereby minimising the levels of risk to service activity.

1. Purpose

- 1.1 Following the Council's Peer Review by the Local Government Association during January 2025, it was suggested that a review was undertaken of the current internal audit arrangements in place. This was based on feedback received from both elected members and officers that were interviewed as part of the Peer Review team's work.
- 1.2 This report provides the findings from the review by the Council's Section 151 Officer, with a proposal to invest in additional capacity and audit days for the current internal

audit function. This will ensure greater visibility, impact, and reporting on the auditor's work programme whilst ensuring that the maximum possible value is added.

2. Recommendations

2.1 That the Audit Committee:

- **NOTES** the findings of the Section 151 Officer's review of the current internal audit arrangements in place at the Council.
- **APPROVES** the additional investment in internal audit days to that set out in the table at paragraph 3.12, subject to those resources being available from the Council's medium term financial plan. This will ensure that the Council buys internal audit services at the average level for unitary authorities.
- **NOTES** that a revised work programme with an additional 170 days for 206/27 will be produced by Veritau or consideration at the Committee's next meeting in July.

3. Background and relevant information

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines internal audit as an independent, objective assurance and consulting activity, designed to add value and improve an organisation's operations. It evaluates and improves the effectiveness of risk management, control, and governance processes.

3.2 The responsibility for internal audit within local government under legislation rests with the S151 Officer, in consultation with the other statutory and executive officers responsible for management of the organisation. An annual programme of work, based on an ongoing risk assessment and dialogue with officers, is undertaken by internal audit each financial year and is agreed and reported to LMT and Audit Committee. The current annual programme of days is 555 in total per year at a cost of £183,705.

3.3 Internal Audit was one of the areas of governance identified for improvement as part of the Peer Review exercise in 2024. The rationale for this was that some of the feedback given by both officers and elected members to the Review Team identified issues with:

- The value of specific projects to the Council, particularly those of a recurring nature which can often be audited annually.
- The timeframe between commencing audit work and reporting often being too long leading to slippage of audits between annual programmes.
- The visibility of the internal audit at service level within the organisation not being as high as it should be.

- 3.4 Until the early 2000's internal audit at Middlesbrough was an in-house function with internal auditors employed by the Council. Due to the age profile of the existing team leading to several retirements and subsequent recruitment issues, a shared service was established between Middlesbrough and Redcar and Cleveland Borough Council from April 2010 - Tees Valley Audit and Advisory Services (TVAAS), to ensure that services were maintained at an appropriate level and quality.
- 3.5 TVAAS experienced similar retention and recruitment problems during the following decade leading to the non-viability of the shared service. To ensure that a fit for purpose internal audit function was maintained, Middlesbrough procured Veritau, a local authority internal audit company created by North Yorkshire County and City of York Councils. This organisation provided audit and counter-fraud services to several other local authorities, including some commercial offerings. As a result of the new provider's size and stability, this eliminated many of the risks associated with internal audit under the TVAAS set up.
- 3.6 Middlesbrough (and Redcar and Cleveland) joined under new a new contract approved by the Council's Executive from January 2020. This was on a subscription basis via capital investment in a new company, Veritau Tees Valley Ltd. The contract is a long term one to encourage partnership working and collaboration, with an initial period of ten years (to December 2029), plus the option to extend for a further five subsequent years.
- 3.7 Due to the continuing growth and success of Veritau within the wider public sector, the company has recently restructured into separate 'not for profit' and 'commercial' arms, with the audit contract for the Council, transferring to the former, Veritau Public Sector Ltd from February 2026. The change in delivery vehicle for the contract has had no impact on the level and quality of service delivery or the annual cost.
- 3.8 The current annual internal audit programme has remained unchanged since the transfer from TVAAS at 555 days per year. In this period however, the Council has been through a range of significant issues from Covid-19, leadership and service related changes, governance challenge and improvements following statutory external audit recommendations, government intervention in the form of the Best Value Notice, and a difficult budget and medium term financial position following years of under-funding and demand led pressures, particularly related to children's and adult social care. The 'Recover, Reset and Deliver' approach to organisational change in recent years means that the Council is now very different to that at the start of the Veritau contract.
- 3.9 Given the feedback from the Peer Review team highlighting several issues to consider on the value of internal audit to Middlesbrough, and the above highlighted organisational change, it seems an opportune time to review the existing internal audit arrangement. Discussions have been held between the S151 Officer and

senior management at Veritau to consider the LGA findings and performance in recent years. These have identified that the level of investment by the Council in internal audit is much lower than for most other unitary authorities. Although this might have been appropriate a decade ago, it needs to be reviewed for the current challenges facing local government and Middlesbrough at present.

3.10 Veritau provided the S151 Officer with a set of benchmarking data (on a confidential basis) on the number of internal audit days used by other unitary local authorities to assist with the review, and which provided the following conclusions:

- The average number of days for unitary authorities who are part of our CIPFA nearest neighbour model (those with similar socio-economic and demographic characteristics) was **890** days per annum. (over **60%** greater than Middlesbrough).
- The average number of days for the total unitary authority population was **988** days per annum (**78%** greater than Middlesbrough).
- The Council is significantly under investing in internal audit services in comparison to others and this may be the primary factor influencing the comments received by the LGA during the Peer Review interviews.
- The profile and impact of internal audit within the organisation have possibly been reduced because of the lower level of investment by Middlesbrough, than for an average local authority in recent years.

3.11 For Middlesbrough to catch up with other unitary local authorities and increase the value for money under the current contract, it is proposed that an increase in the number of internal audit days is bought by the Council over a period. This will allow the Council to work with Veritau to establish a new and improved internal audit programme which will address the comments from the LGA and for Management to cascade this new approach to senior officers within the organisation.

3.12 The following profile of days is suggested as a managed transition to a revised set of working arrangements with Veritau, that increases the scope and coverage of the current internal audit work programme:

Financial Year	Number of internal audit days	% Increase from current level	Rationale for proposed increase
2025/26	555	-	Current contracted amount.
2026/27	725	30.6%	Halfway between current no of days and the CIPFA nearest neighbour model average. [Given the financial year is already underway, there is not enough time to implement a major

			increase for 2026/27, but this demonstrates a commitment and ambition to do more with Veritau.]
2027/28	890	60.4%	Increases Middlesbrough's investment in internal audit to the CIPFA nearest neighbour model average for the next financial year.
2028/29	890	60.4%	Retain the status quo for 2027/28 to embed the revised approach to working with Veritau within the organisation.
2029/30	1,000	80.2%	Average level of investment in internal audit services by unitary local authorities who were part of the benchmarking exercise.

3.13 Although further discussion is required on exactly what this additional investment will buy for the Council, the main emphasis will be on increasing the profile of internal audit within Middlesbrough, using internal audit more as a critical friend/consultant rather than just for process and system reviews, and additional reporting/contact with LMT, Audit Committee, Heads of Service and within Directorates.

3.14 Some additional areas of new audit coverage have already been discussed with Veritau as a part of recent monthly liaison meetings:

- Specific projects linked directly to the strategic and directorate risks registers.
- Consultancy type work, where Veritau have greater knowledge and exposure to topic areas due to working with other local authorities and clients.
- Focussed reviews on areas of non-compliance with the Constitution and the Finance & Contract Procedure Rules
- Training and guidance for council staff.
- Additional projects added to the current year work programme from Veritau's own risk assessment of the Council's operations.

All would be with the aim of increasing the quality and depth of governance processes and knowledge within the organisation and minimising the levels of risk where possible

3.15 In terms of finance, the current cost of internal audit days is £331 per day but this increases by CPI each year. Assuming that inflation is broadly 2% over this period, the additional cost for the suggested increases in the number of internal audit days, and how they could be funded are set out in the table below.

Financial Year	Additional internal audit days	Cost per Day (£)	Total Additional Cost (£)	Basis for Funding
2026/27	170	338	57,460	From 2025/26 growth amount
2027/28	165	345	56,925	Growth bid to MTFP
2028/29	0	352	0	No additional budget required
2029/30	110	359	39,490	Growth Bid to the MTFP

3.16 The total increase over the MTFP period would be £153,875 taking the annual cost from £183,705 to £337,580. An increase of 80%.

3.17 Following Audit Committee and an agreement being reached on the additional investment required on an annual basis going forwards, officers at Veritau will prepare a revised work programme for the 2026/27 financial year for further discussion. This will be to the July meeting of the Committee.

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

- 4.1 Do Nothing – Keep the current contract at the existing level of 555 days. This option is not recommended as this would not give the relevant capacity to improve given the current feedback on the effectiveness of the internal audit contract.
- 4.2 Invest but at a different number of days or profile to that recommended in the table at Paragraph 3.12. This would be for Members to discuss. The suggested number of days and profile though is based on data from other comparable local authorities and from discussion with management in the Council and at Veritau on what is reasonable to achieve from the existing base and over the MTFP timeframe.

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

Topic	Impact
Financial (including Social Value)	The financial implications of purchasing additional internal audit days are set out in the table at 3.15 above. The total revised annual cost for internal audit is set out at 3.16 and totals £337,580 per annum.
Procurement	There are no associated procurement implications with the recommendations being made in this report. The existing contract will continue until expiry on 31 December 2029, where there is an option for the Council to extend for a further five years.

Legal	There are no legal implications from this report. Internal Audit is a statutory function under the Local Government Act 1972 and the requirements on the Council are set out in the Local Audit and Accountability Act 2014.
Risk	Investing in additional internal audit services is part of the Council's overall strategy to manage risk, both at strategic and directorate (operational levels). The impact of internal audit work on areas will be reflected as part of the Council's own self-assessment scoring on the level of inherent risk.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no direct implications in this area from the recommendations being made in this report.
Reducing poverty	There are no direct implications in this area from the recommendations being made in this report.
Climate Change / Environmental	There are no direct implications in this area from the recommendations being made in this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no direct implications in this area from the recommendations being made in this report.
Data Protection	There are no direct implications in this area from the recommendations being made in this report.

Background papers

Body	Report title	Date
Audit Committee	Internal Audit Work Programme 2026/27	23 April 2026
Audit Committee	Head of Internal Audit Annual Report – 2025/26	25 June 2026

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