AUDIT COMMITTEE

A meeting of the Audit Committee was held on Thursday 23 July 2026.

PRESENT: Councillors J Ewan (Chair), D Coupe (Vice-Chair), D Branson, I Morrish, M Nugent and Z Uddin

ALSO IN ATTENDANCE: C Andrew (Forvis Mazars), D Hodgson (Local Democracy Reporter), C Cooke (Elected Mayor)

OFFICERS: C Benjamin, A Johnstone, J Weston, E Scollay, R Johansson and K Allan

26/12 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed those present to the meeting and advised Members and attendees of the fire evacuation procedure. The Chair also reminded those present of the arrangements relating to the recording, filming and photographing of public meetings.

26/13 **APOLOGIES FOR ABSENCE**

L Young and A Humble.

26/14 **DECLARATIONS OF INTEREST**

The Chair invited Members to declare any interest in items on the agenda.

Name of Member	Type of Interest	Nature of Interest
Councillor Ewan	Non-pecuniary	Member of Teesside Pension Fund
Councillor Coupe	Non-pecuniary	Board Member of Boarder to Cost in connection with Teesside Pension Fund
Councillor Branson	Non-pecuniary	Spouse is a member of Teesside Pension Fund

26/15 **MINUTES - AUDIT COMMITTEE - 25 JUNE 2026**

The minutes of the Audit Committee meeting held on 25 June 2026 were submitted and approved as a correct record.

26/17 **DRAFT ANNUAL REVIEW OF EFFECTIVENESS 2025/2026**

The Head of the Chief Executive's Department presented the report, the purpose of which was to seek approval for the proposed approach to undertaking the Audit Committee's Annual Review of Effectiveness for 2025/2026. Members were advised that the review had been developed in accordance with the CIPFA Audit Committee Position Statement (2022) and would be undertaken through a structured, evidence-based process incorporating Members' self-assessment, officer feedback, consideration of progress against recommendations arising from the previous review, and an assessment of the Committee's work programme and outputs against its Terms of Reference. It was explained that the review would culminate in a final report to be presented to the Committee in September 2026, together with any recommendations for further improvement.

The Committee welcomed the proposed methodology and recognised that the annual review formed an important element of the Council's governance framework, providing Members with an opportunity to reflect upon the Committee's effectiveness and identify opportunities for continued improvement. Clarification was sought regarding the decision not to commission an externally facilitated review for the current municipal year. Officers advised that, whilst the previous review had benefited from independent challenge provided through the Local Government Association, the annual effectiveness review had now been embedded within the Committee's governance arrangements, consistent with CIPFA guidance. It was further explained that the inclusion of structured officer feedback, alongside Members' self-assessment, would ensure that the review was informed by a balanced range of evidence. Whilst Members acknowledged the value of independent external challenge, it was recognised that the proposed methodology provided a proportionate and robust approach for the purposes of the annual review.

In considering the Committee's effectiveness against its Terms of Reference, Members identified a number of constitutional matters requiring further review. It was noted that differences existed between the published Audit Committee Terms of Reference and the relevant provisions contained within the Constitution following the amendments approved in September 2025. Members considered that the two should be reviewed to establish the appropriate wording and ensure that they were aligned. Members also sought clarification regarding references to internal and external audit, including whether the current wording accurately reflected the Committee's responsibilities for oversight of audit activity and consideration of value for money. Officers advised that Members received regular assurance through the annual audit process and had opportunities throughout the year to scrutinise and challenge both internal and external audit. It was also confirmed that any concerns relating to external audit services could be raised through the appropriate regulatory arrangements where necessary.

The Committee also considered wider aspects of its operation, including meeting frequency, Member development and the use of substitute Members. Members recognised the importance of maintaining continuity of membership to support effective governance and acknowledged the specialist knowledge developed through the Committee's ongoing training programme. Whilst differing views were expressed regarding substitute Member arrangements, it was noted that that any future amendments would require consideration through the Council's constitutional governance processes. Members further recognised the value of benchmarking elements of the Committee's operation against recognised good practice and comparable authorities where appropriate, together with the continued use of structured officer feedback and the CIPFA Audit Committee Position Statement to inform the final review.

Having considered the proposed methodology and provided their initial observations on the Committee's effectiveness, Members were satisfied that the proposed approach would provide a robust assessment of the Committee's performance and identify any future opportunities for improvement.

AGREED that:

1. The proposed approach to undertaking the Audit Committee's Annual Review of Effectiveness for 2025/2026, as set out in sections 3.1, 3.2 and 3.3 of the report be approved.

2. A final report, incorporating Member and officer feedback, be presented to the Committee in September 2026 for consideration.

3. The Committee's initial views on its effectiveness against its terms of reference and the CIPFA Audit Committees Position Statement (2022), together with the comments raised during the meeting, be incorporated into the final Annual Review of Effectiveness.

26/18 **DRAFT ANNUAL GOVERNANCE STATEMENT**

The Chief Executive presented the Draft Annual Governance Statement (AGS) 2025/2026, explaining that it forms part of Council's Statement of Accounts and was required under the Accounts and Audit Regulations 2015. The Statement provided an evidence-based assessment of the effectiveness of the Council's governance arrangements, including internal control, risk management and assurance, drawing upon a range of evidence including Internal Audit, External Audit, Statutory Officer assurances, scrutiny peer challenge and other independent sources of assurance.

Members were advised that the annual review concluded that the Council's governance arrangements had operated effectively during 2025/2026 and remained fit for purpose. The Statement also identified a number of governance priorities for 2026/2027 to support the Council's commitment to continuous improvement. These included:

- Strengthening integrated performance and financial management.
- Embedding directorate service plans.
- Enhancing partnership governance.
- Improving management of Members enquiries.
- Developing workforce capacity.
- Progressing information governance and digital transformation.
- Maintaining effective oversight of emerging governance risks.

The Chief Executive highlighted that the governance framework had continued to mature throughout the year, supported by the refreshed Performance and Financial Management Policy, the transition to the continuous improvement model, the introduction of the Governance and Assurance Mapping Policy and the completion of the Committee's annual effectiveness review. It was noted that these improvements demonstrated the Council's ongoing commitment to strengthening governance rather than addressing fundamental governance failings.

During discussion, Members welcomed the overall assurance provided within the Statement and acknowledged the progress made in strengthening governance arrangements. Members highlighted the importance of giving greater prominence to horizon scanning within future governance reporting to ensure that emerging strategic risks are identified and considered at an earlier stage.

The Committee discussed the governance implications of Artificial Intelligence (AI). Members recognised both the opportunities presented by emerging technologies and the associated risks relating to information governance, cyber security and data quality. Officers advised that AI represented a growing national governance issue and that Council's approach needed to balance the risks of adopting AI against the risks of failing to embrace technological change. It was confirmed that an AI Policy had been introduced to provide an appropriate governance framework for its use.

Clarification was sought regarding the Council's constitutional governance arrangements. Members were advised that the Constitution continued to be reviewed through the Constitution Committee, supported by Democratic Services, with amendments considered regularly to ensure the Constitution remains current, reflects legislative changes and continues to be fit for purpose.

Members also discussed partnership governance, including the Council's relationship with the Tees Valley Combined Authority and the ongoing liquidation of Middlesbrough Development Company. The Chief Executive emphasised the need to develop a more strategic and coordinated approach to overseeing the Council's partnership arrangements. Officers confirmed that the remaining work relating to the liquidation of the Middlesbrough Development Company was largely procedural, with the necessary documentation having been submitted through the liquidators to HMRC.

In considering the governance priorities for 2026/2027, Members discussed improvements to the management of Members enquiries and casework. Concerns were expressed regarding the consistency and timeliness of responses through the Councillor Gateway system and the need for greater accountability and improved communication with Members. Officers advised that additional resources had been introduced, service improvements were beginning to show positive results, and further work was underway to integrate systems and improve customer relationship management to deliver a more consistent approach across the organisation.

Members welcomed the comprehensive nature of the Statement and supported the continued focus on embedding continuous improvement across the Council's governance framework.

AGREED that:

1. The robustness of the underlying review of governance and the evidence presented was considered.

2. The Draft Annual Governance Statement (AGS) 2025/2026 was noted.

3. The conclusion that the Council's governance arrangements were operating effectively and were fit for purpose was noted.

4. The governance improvement actions identified for 2026/2027 were noted.

5. The comments of the Committee be considered in finalising the Annual Governance Statement prior to its approval alongside the Statement of Accounts.

26/19 **ROLE AND RECRUITMENT OF AN INDEPENDENT MEMBER**

The Head of Finance and Investment introduced a report seeking the Committee's support to commence the recruitment of up to two non-voting Independent Persons to the Audit Committee. The report outlined the proposed recruitment process, governance arrangements and draft role profile, together with the rationale for the appointments in advance of forthcoming legislative changes which would make the appointment of Independent Persons to local authority Audit Committees a statutory requirement.

Members were advised that the proposal followed recommendations arising from the Local Government Association's Review of Audit Committee Effectiveness and aligned with the CIPFA best practice guidance, both of which recognised the benefits of introducing independent expertise and challenge to strengthen governance, risk management and financial oversight. It was explained that whilst the Council's Constitution already provided for the co-option of up to two Independent Persons, the report sought the Committee's endorsement of the proposed recruitment approach to enable the Council to be prepared once the legislation came into force.

The Committee heard that the draft role profile had been developed using examples from a number of other local authorities and reflected CIPFA guidance regarding the knowledge, skills and experience expected of Independent Persons. Members were advised that the appointments would be for an initial two-year term, with successful applicants expected to undertake induction and ongoing training, comply with the Members Code of Conduct and declarations of interest requirements, and make a meaningful contribution to the Committee's work through regular attendance and independent challenge.

During discussion, Members sought clarification regarding the independence of the proposed appointments and whether individuals with significant professional expertise could inadvertently influence or dominate committee discussions. Officers advised that the appointments were intended to provide independent advice and constructive challenge rather than direct the work of the Committee, with appropriate safeguards forming part of the recruitment and interview process.

Reference was also made to experiences of other organisations that had appointed Independent Persons, with Members highlighting the importance of recruiting individuals who are committed to the role and able to make an active contribution. Officers explained that the role profile had therefore been developed to set clear expectations around attendance, preparation, training and ongoing engagement in accordance with CIPFA guidance.

Members also discussed the proposed eligibility criteria, including restrictions relating to recent political activity, previous Council employment and close personal relationships with Members or officers. Officers advised that these requirements were intended to preserve the independence and integrity of the role, whilst acknowledging that a balanced and proportionate approach would be adopted during recruitment to avoid unnecessarily limiting the pool of applicants.

The Committee further noted that, although the Constitution permitted the appointment of up to two Independent Persons, authorities often adopted a phased approach by initially recruiting one Independent Person before considering whether a second appointment would be beneficial following an appropriate period of operation.

AGREED that:

1. The proposed approach to the co-option of up to two non-voting Independent Persons to the Audit Committee, as set out in the report, was noted.

2. Delegated authority be granted to the Section 151 Officer, following consultation with the Monitoring Officer and the Chair and Vice-Chair of the Audit Committee, to finalise the role specification prior to commencing the recruitment process.

3. It be noted that the appointment of any successful candidates would be determined by Full Council.

26/20 **PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT OUTTURN REPORT 2025/2026**

The Head of Finance and Investment presented the Prudential Indicators and Treasury Management Outturn Report for 2025/2026, outlining the Council's year-end treasury management position and confirming that all Prudential Indicators had remained within approved limits throughout the financial year. Members were advised that the Council had maintained an under-borrowed position, with treasury management activity continuing to be undertaken in accordance with the approved Treasury Management Strategy and CIPFA Code of Practice.

Members sought clarification regarding the Council's capital programme and the nature of the capital expenditure. Officers explained that the capital investment supported long-term infrastructure and regeneration projects across a wide range of service areas, including highways, schools, land acquisition and regeneration schemes. It was noted that the Council continued to maximise the use of capital grants, external contributions and capital receipts before considering additional borrowing, ensuring that borrowing requirements remained both affordable and prudent.

The Committee discussed opportunities to maximise returns from capital assets and queried whether further income-generating investments could be considered. Officers advised that treasury investment decisions were governed by the Council's Treasury Management Strategy and external professional advice, with the primary objective remaining the security of investments rather than maximising returns. It was acknowledged, however, that officers would seek further advice from the Council's treasury management advisers regarding the Council's current appetite for investment risk and any potential opportunities within the existing Treasury Management Strategy.

Members welcomed the Council's continued approach of utilising grants, contributions and capital receipts wherever possible to reduce borrowing requirements and noted that this remained a key principle within the Medium-Term Financial Plan.

The Committee also received an overview of the forthcoming Statement of Accounts, with officers highlighting the key areas Members should consider during their review, including movements in usable reserves, capital receipts, capital expenditure, long-term assets and liabilities, borrowing levels and changes within the balance sheet. Officers advised that, whilst there had been movement across a number of accounting balances during the year, the Council's overall financial position remained relatively stable.

During discussion of the wider financial position, Members queried the impact of changing business rates income, housing growth and wider economic conditions on the Council's financial sustainability. Officers explained that, whilst housing growth would increase the Council Tax base over time, there were practical limitations on future housing delivery. It was further noted that ongoing changes in business rate income, the relocation of businesses and the continued challenges facing town centres would remain important considerations within the future Medium-Term Financial Planning.

AGREED that:

1. The Prudential Indicators for 2025/2026, as the Council's year-end position in relation to capital finance activities and overall indebtedness, were noted.

2. The performance of the Treasury Management function was considered, and the explanations and assurances provided by the Head of Finance and Investment in response to Members questions were noted.

26/21 **DRAFT STATEMENTS OF ACCOUNTS 2025/2026**

The Head of Finance and Investment presented the Draft Statement of Accounts 2025/2026, advising that the report provided Members with an overview of the Council's draft financial statements prior to the commencement of the external audit. Members were reminded that the Committee would receive the audited Statement of Accounts for approval following completion of the external audit process.

Members were advised that the draft Statement of Accounts and Annual Governance Statement had been published in accordance with the Accounts and Audit Regulations 2015 and were subject to the statutory public inspection period. Officers explained the purpose and structure of the Statement of Accounts, highlighting the key movements in reserves, the Balance Sheet, the Collection Fund and the Annual Governance Statement. It was noted that the statutory accounts differed from the Council's management accounts and budget monitoring reports due to the technical accounting adjustments required under the CIPFA Code of Practice.

The Committee noted that usable reserves had reduced during the year, with officers explaining that this reflected the planned use of reserves to support the capital programme together with movements in earmarked reserves and capital receipts. Members were advised that, notwithstanding these movements, the Council's Balance Sheet continued to demonstrate a relatively stable financial position, with only limited year-on-year changes to assets and liabilities.

Members discussed wider financial sustainability, including the relationship between population growth, housing development, business rates income and Council Tax receipts. Concern was expressed regarding the ongoing decline in business rates and the continuing challenge of maintaining the attractiveness and economic vitality of the town centre. Officers advised these issues formed part of the Council's wider Medium-Term Financial Plan and Collection Fund monitoring arrangements and would continue to be monitored.

During consideration of the draft accounts, Members identified a small number of factual inaccuracies and presentational errors within the document, including references to dates, salary disclosures and supporting narrative. Officers acknowledged the issues raised and confirmed that the draft Statement of Accounts would be amended to correct the identified errors before the audited accounts were presented back to the Committee.

Members also discussed the technical nature of the Statement of Accounts and agreed that a dedicated information session would assist Members in developing a greater understanding of the accounts ahead of future consideration of the draft and audited financial statements.

AGREED that:

1. The Draft Statement of Accounts for 2025/2026, having been approved by the Corporate Director of Finance for publication on 30 June 2026, was noted.
2. The draft Annual Governance Statement for 2025/2026, having been approved by the Mayor, the Chief Executive and the Section 151 Officer, was noted.
3. The statutory public inspection period from 1 July 2026 to 11 August 2026 was noted.
4. A separate information session on the Statement of Accounts would be arranged for Members ahead of consideration of future draft and audited Statement of Accounts.

26/22 **AUDIT STRATEGY MEMORANDUM - MIDDLESBROUGH COUNCIL**

The Senior Manager, External Audit (Forvis Mazars) presented the Audit Strategy Memorandum for the audit of the Council's 2025/2026 Statement of Accounts. The report outlined the proposed audit approach, scope, methodology and timetable for the external audit and set out the respective responsibilities of the external auditor, management and those charged with governance throughout the audit process.

Members were advised that the audit strategy had been developed using a risk-based approach and identified the significant and enhanced audit risks requiring particular audit focus for 2025/2026. These included:

- The presumed risk of fraud in revenue recognition.
- Management override of controls.
- The valuation of property, plant and equipment.
- The valuation of the net defined benefit pension liability.
- The impairment allowance for debtors.

The report also explained the approach to rebuilding audit assurance following previous disclaimer opinions arising from the national local audit backlog, with audit work continuing to focus on current year transactions and balances to progressively restore assurance over future financial statements.

The Committee noted the proposed audit timetable, including the completion of planning and interim audit work, substantive audit testing and reporting arrangements, together with the statutory backstop date for completion of the audit. Members were advised of the proposed materiality levels to be applied during the audit, the threshold for reporting unadjusted misstatements and the qualitative factors that could require matters to be reported irrespective of value.

The report also outlined the proposed approach to the auditor's Value for Money work, which would assess the Council's arrangements for securing economy, efficiency and effectiveness through consideration of financial sustainability, governance and improving economy, efficiency and effectiveness. Members noted that follow-up work would be undertaken on the significant weaknesses identified during the previous year's audit, including the Council's reliance on Exceptional Financial Support, the financial sustainability risks associated with the Dedicated Schools Grant deficit and the alignment of the Council Plan with performance management arrangements.

Members were also advised of the proposed audit fee arrangements for 2025/2026 and noted the auditor's confirmation that Forvis Mazars remained independent of the Council, had complied with the Financial Reporting Council's Ethical Standard and had appropriate safeguards in place to maintain objectivity throughout the audit.

The report further outlined the statutory communications required between the external auditor and those charged with governance, together with supporting information relating to key audit terminology, including materiality, significant audit risks, enhanced risks, key audit matters and the responsibilities of the Key Audit Partner. Members also noted the technical accounting updates included within the report, including amendments to the valuation requirements for non-investment assets under the Code of Practice on Local Authority Accounting and the forthcoming implementation of IFRS 18: *Presentation and Disclosure in Financial Statements.*

AGREED that:

1. The contents of the Audit Strategy Memorandum for the audit of the Council's 2025/2026 Statement of Accounts were noted.

26/23 **DRAFT AUDIT STRATEGY MEMORANDUM - TEESSIDE PENSION FUND**

The Senior Manager, External Audit (Forvis Mazars) presented the draft Audit Strategy Memorandum for the audit of the Teesside Pension Fund for the year ending 31 March 2026. The draft report outlined the proposed audit scope, methodology, significant audit risks, materiality, audit timetable and the respective responsibilities of the external auditor, management and those charged with governance.

Members were advised that the audit had been planned using a risk-based approach and that the draft strategy set out the proposed programme of work, including planning and risk assessment, interim audit work, fieldwork, communication of findings and completion of the audit, together with the anticipated timetable for reporting to the Committee.

The Committee noted the significant audit risks identified within the draft strategy, including management override of controls and valuation of Level 3 investments within the fair value hierarchy. The proposed audit procedures to address these risks, together with the proposed materiality levels, reporting arrangements for identified misstatements and the proposed audit fee arrangements, were outlined.

Members also noted the confirmation within the draft report that Forvis Mazars remained independent of the Teesside Pension Fund and complied with the relevant ethical standards. The appendices were noted, including further information on the proposed audit approach, required communications, auditor and management responsibilities, key audit definitions and forthcoming accounting developments relevant to future audits of the Teesside Pension Fund.

AGREED that:

1. The draft Audit Strategy Memorandum for the Teesside Pension Fund 2025/2026 was noted.

26/24 **WORK PROGRAMME (STANDARD ITEM)**

The Democratic Services Officer presented the updated Audit Committee Work Programme and advised that it had been reviewed and updated since the previous meeting. Completed items had been recorded as complete, with forthcoming reports and Committee business updated where appropriate to reflect the Committee's agreed programme of work and current priorities.

Members were advised that a progress update had been circulated by email following the previous meeting, outlining the actions taken in respect of the Committee's decisions. It was noted that actions arising from previous meetings had been allocated to the relevant officers and followed up to support delivery within the agreed timescales.

The Committee considered the scheduling of future risk deep-dive reports and agreed that SR-04: Unlawful Decision by the Council would be presented to the September 2026 meeting. It was further agreed that SR-02: Volatility in the Demand, Complexity and Cost of Children's Social Care would be scheduled for the October 2026 meeting. The Democratic Services Officer confirmed that the relevant officers would be advised of the Committee's decisions to enable reports to be prepared for the agreed meeting dates.

AGREED that:

1. The updated Audit Committee Work Programme was noted.

2. SR-04: Unlawful Decision by the Council be scheduled for the September 2026 Audit Committee meeting.

3. SR-02: Volatility in the Demand, Complexity and Cost of Children's Social Care be scheduled for the October 2026 Audit Committee meeting.

26/25 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED.**

None.