

Darlington Borough Council

Audit Results Report – ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015, Public Sector Audit Appointments Ltd (PSAA) issued the ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure: If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice ("the Code") requires us to report to those charged with governance, the Audit Committee, on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

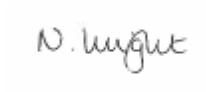
Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We have substantially completed our audit of the financial statements of Darlington Borough Council for the year ended 31 March 2016. Subject to satisfactory completion of the outstanding items included in Appendix C, we will issue an audit opinion in the form which appears in Appendix F.</p> <p>We have performed the procedures outlined in our Audit Planning Report and anticipate issuing an unqualified opinion on the Council's financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>Our audit identified some audit differences which our team highlighted to management for amendment. These have been corrected during the course of our work. We set out information regarding these amendments in Appendix A. There are two uncorrected audit difference as set out in Appendix B.</p>
Scope and materiality	<p>In our Audit Planning Report, presented at the March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £5.1m. We have reassessed this based on the actual results for the financial year and have performed our work using a materiality of £5.7m.</p> <p>The threshold for reporting audit differences which impact the financial statements has not changed from £255,000.</p>
Significant audit risks	<p>We identified the following significant audit risks during the planning phase of our audit, and reported these to you in our Audit Planning Report:</p> <ul style="list-style-type: none"> • Risk of management override; • Risk of fraud in revenue recognition; • Risk of fraud in expenditure recognition; and • Valuation of land and buildings. <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over these risks.</p>
Other reporting issues	<p>We have no other matters we wish to report.</p>

Control observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls. However, we did identify one improvement recommendations in relation to management's financial processes and controls. This is set out in the 'control themes and observations' section of this report on page 7.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.



Nicola Wright

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Planning Report. Here, we set out how we have gained audit assurance over those risks.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the Council's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; and • Evaluated the business rationale for any significant unusual transactions. 	<p>We have no matters to report arising from our work.</p>
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK and Ireland) 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> • Reviewed and tested revenue and expenditure recognition policies; • Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias, including significant provisions and accruals, and criteria for recognition of grant income; • Developed a testing strategy to test material revenue and expenditure streams; and • Reviewed and tested revenue and expenditure cut-off at the period end date. 	<p>We have no matters to report arising from our work.</p>
<p>Valuation of land and buildings</p> <p>Land and buildings is the most significant balance in the Council's Statement of Financial Position. The valuation of land and buildings is subject to a number of assumptions and judgements and even a small movement in these assumptions, could have a material impact on the accounts.</p>	<ul style="list-style-type: none"> • Reviewed the output of the Council's valuer; • Challenged the assumptions used by the Council's valuer by reference to external evidence; and • Tested the journals for the valuation adjustments to check that they have been accurately processed in the accounts. 	<p>We identified errors in one balance, resulting in an adjustment in the accounts of around £5m. We have set out more information on this misstatement in the narrative below.</p>

We also identified the following other audit risks during the planning phase of our audit, and reported these to you in our Audit Planning Report. Here, we set out how we have gained audit assurance over these other risks.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Opening balances</p> <p>2015/16 was the first year that we have completed your audit, and as such the requirements of ISA (UK & Ireland 510) apply.</p> <p>The basic objectives of an initial audit are similar to those of any audit engagement. However, when performing an initial audit, we report on the current period's assets, liabilities, and reserves, which are dependent upon the appropriateness of the opening balances.</p> <p>Therefore, we performed additional procedures in order to gain assurance that the opening balances were free from material misstatement. These procedures covered all balance sheet items, including for example key judgement areas and Private Finance Initiative (PFI) assets and liabilities.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the work of the predecessor auditor, to identify any issues identified that may impact upon the opening balances; Reviewed the work of the predecessor auditor to ensure the audit has been completed to an appropriate standard to allow us to place reliance on their audit opinion; Substantively tested all opening balances to ensure that they agreed both to the prior year audited accounts and closing trial balance; and Reviewed key judgement areas and PFI models to ensure that prior year disclosures in relation to PFI assets and liabilities are materially correct. 	<p>We have no matters to report arising from our work.</p>
<p>Accounting for pensions obligations</p> <p>Funding of the Council's participation in the local government pension scheme will continue to have an impact on both Council cash flows and balance sheet liabilities.</p> <p>The pension liability is the most significant liability on the Council's balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions could have a material impact on the balance sheet.</p>	<ul style="list-style-type: none"> Reviewed the output of the report from the Council's actuary; Reviewed the assumptions used by the actuary to determine whether they are in our expected range; and Tested the journal entries for the pensions transactions to check that they have been accurately processed in the accounts. 	<p>We have no matters to report arising from our work.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

Change to accounting practices

The Council has made one significant change to its accounting practices in year that we wish to draw to your attention. The minimum revenue provision ("MRP") is the statutory charge that the Council sets

aside each year to fund unfinanced future capital expenditure. MRP was introduced in 2004/05 and the statutory charge was 4% on a reducing balance basis. In 2007/08, the regulations changed to allow some flexibility in the calculation of the charge and, although the Council did set a charge on some assets that matched the useful economic life, the majority of the annual charge was still on a reducing balance basis.

The Council has reviewed the method of calculation of MRP in 2015/16 and moved from a 4% reducing balance charge on supported borrowing to a 2% annuity to reflect the fact that loans taken out to fund capital expenditure are repayable over a 50 year period.

The Council has worked back to understand what the impact would be if MRP at the 2% annuity was charged back to 2007/08 when the regulations changed and identified that annual charges would have been significantly less and there has therefore been an “over provision” of MRP charges of around £17m. Approximately £3m of this overprovision has been utilised in 2015/16 so that there is a minimal charge in the financial statements.

We have worked through the calculations provided by management and reviewed the evidence provided to support the overprovision, with no areas to highlight arising from this work.

Valuation and impairment of land and buildings

As noted above, we identified the valuation of land and buildings as a significant risk. Through our testing, we identified one adjustment above our reporting threshold relating to valuations:

- Muscar Farm: due to an arithmetical error in the working paper received from the valuer, the valuation was understated by £5.1m. An adjustment has been made in the accounts to correct the valuation and increase the value of land and buildings by £5.1m; and

Given the size of the error relating to Muscar Farm, we recommend that consideration is given to the review process over valuations to ensure that future errors are picked up as part of the accounts preparation process.

In addition to the above, we identified that impairment values had incorrectly been netted off the upwards revaluations line in the property, plant and equipment note (note 16 in the accounts). This resulted in a reclassification in the note of £5.3m, although this had no impact on the overall value of assets disclosed.

Fixed Asset Register

We identified through our testing of property, plant and equipment that there is a difference between the value of assets showing on the fixed asset register when compared to the value included in the general ledger. We understand that this difference has existed since 2014/15, with the value on the fixed asset register being £2.4m higher for land and buildings, but £0.3m lower for investment properties.

Our testing of fixed asset movements in year has given us assurance that the balance included in the accounts is not materially misstated. However we recommend that this difference is investigated and any amendments to the fixed asset register made as appropriate.

Provisions

For a number of years, the Council has carried a provision in the accounts relating to a land reclamation grant that had the potential to be repaid. We have requested evidence to show that the provision is still required, however due to the age of the provision, no evidence to support its existence could be provided.

For this reason, we have recommended that the Council releases this provision. However, the decision has been made by officers to continue to disclose this provision in the Statement of Accounts.

Exit Packages

We identified 12 exit packages agreed in 2015/16 where the package and value is not disclosed in the accounts. The Code requires that disclosure is made once the exit package is agreed, however the

Council's practice has been to only include those exit packages where the employee is due to leave before August of the following accounting year.

The total value of the 12 packages is £273,000, therefore the Council have decided not to make this adjustment due to it being immaterial. We therefore include this on our uncorrected audit adjustments schedule in Appendix B. We note that none of the packages relate to senior staff in the Council.

Other amendment to disclosures

In addition to the above, we made a number of other amendments to disclosures in the accounts including:

- Removing business rates baseline of £16.8m from the grant income note; and
- Amending classifications in the Comprehensive Income and Expenditure Statement.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls. We did identify one recommendation as set out above relating to:

- The need to ensure the quality review process relating to valuations is sufficiently robust to identify significant errors.

We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

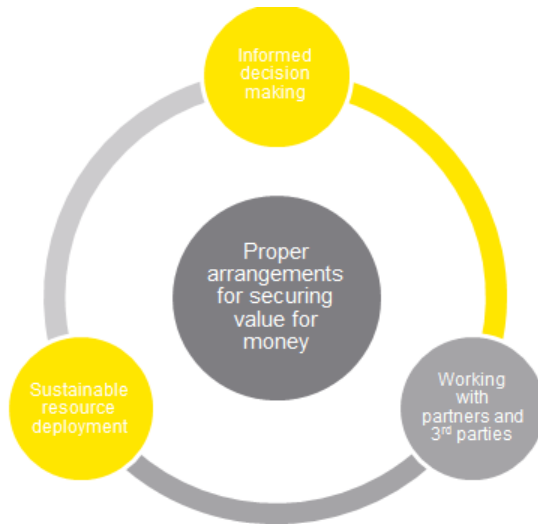
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We have no matters to report arising from this work.

4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In undertaking our work on the Value for Money opinion, we have considered the financial position of the Council and noted that:

In undertaking our work on the Value for Money opinion, we have considered two areas of note. These are the ongoing Ofsted review at the Council and the financial position of the Council and we have noted:

- ▶ Correspondence from both the Department of Education and Ofsted have highlighted that improvements have been made in the services offered.
- ▶ A balanced budget is forecast in the medium term; however this assumes significant cost savings of around £10m across the 4 years of the Medium Term Financial Plan.
- ▶ Over the course of the MTFP the Council's reserves will greatly diminish and spending will be reduced to minimal levels. However, the Council have established plans to deal with these factors, although any further reductions in funding will be very challenging for the Council.
- ▶ We have also considered the output of internal audit reports, VfM profiles issues by PSAA, inspection reports and other sources of information and did not identify any additional VfM risks to our audit opinion.

Overall conclusion

We did not identify any significant risks in relation to these criteria and during the course of our audit work we did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Appendix A – Corrected audit differences

Disclosure	Description of difference
Valuation of land and buildings	Corrected for: <ul style="list-style-type: none"> ▶ £5.1m increase in value of Muscar Farm
Impairments	Reclassified impairments of £5.3m incorrectly netted off upwards revaluations
Disclosures	Amended: <ul style="list-style-type: none"> ▶ Business rates baseline included in grant income note of £16.8m ▶ Reclassifications in Comprehensive Income and Expenditure Statement

Appendix B – Uncorrected audit differences

Disclosure	Description of difference
Exit packages	<p>Exit packages are disclosed on the basis of when they are paid, rather than when they had been agreed in line with the guidance.</p> <p>We have identified 12 exit packages agreed in 2015/16, with a total value of £273,000, that are not disclosed in the accounts.</p>
Land reclamation provision	<p>For a number of years, the Council has carried a provision in the accounts relating to a land reclamation grant, totalling £300k that had the potential to be repaid. We have requested evidence to show that the provision is still required, however due to the age of the provision, no evidence to support its existence could be provided.</p>

Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report.

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit Committee
Annual accounts	Approval of accounts by Audit Committee	EY, management and Audit Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management

Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report dated March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee in September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Planning Report of March 2016.

Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee - Code work	93,264	93,264
Certification of claims and returns	8,911	8,911

Our actual fee is in line with the scale fee set by the PSAA, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix F – Draft audit report

Independent auditor's report to the members of Darlington Borough Council

Opinion on the Authority's financial statements

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement; and
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Darlington Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 12, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial

statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Darlington Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we

considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Darlington Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Darlington Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Darlington Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Darlington Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Nicola Wright (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Newcastle upon Tyne
30 September 2016

Appendix G – Management representation letter

To be prepared on Darlington Borough Council's letterhead

[Date]

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 8HW

This letter of representations is provided in connection with your audit of the financial statements of Darlington Borough Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Darlington Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are two unadjusted audit differences. One in relation to a provision with limited evidence and a further difference in relation to the accrual of exit packages. The net

impact upon the Comprehensive Income and Expenditure Statement of these differences is (£27k).

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - ▶ Additional information that you have requested from us for the purpose of the audit; and
 - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 30 September 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Yours faithfully,

Chief Financial Officer

Chairman of the Audit Committee

Appendix H – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Planning Report
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Planning Report Audit Results Report
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report – to be issued

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