



DARLINGTON
Borough Council

Audit Committee Agenda

2.00 pm

Wednesday, 30 April 2025

Council Chamber, Town Hall, Darlington DL1 5QT

Members of the Public are welcome to attend this Meeting.

1. Introductions/Attendance at Meeting
2. Declarations of Interest
3. To approve the Minutes of this Audit Committee held on 20 January 2025 –
(i) To approve the Minutes of this Audit Committee Special Meeting held on 24 February 2025 (Pages 3 - 10)
4. ICT Strategy - Implementation Progress Report – Report of the Head of ICT Xentrall Shared Services (Pages 11 - 16)
5. Ethical Governance and Member Standards - Update Report (Six Monthly) – Report of the Assistant Director Law and Governance (Pages 17 - 34)
6. Information Governance Work Programme - Progress Report (Six Monthly) – Report of the Complaints and Information Governance Manager (Pages 35 - 42)
7. Audit Services - Audit Charter – Report of the Assurance Manager (Pages 43 - 50)
8. Audit Services - Activity Report – Report of the Assurance Manager (Pages 51 - 60)
9. Audit Services Audit Work 2024/25 - Annual Report – Report of the Assurance Manager (Pages 61 - 72)
10. Internal Audit Strategy 2025-2028 – Report of the Assurance Manager (Pages 73 - 80)

11. Accounting Policies to be applied to the 2024/25 Financial Statements – Report of the Executive Director of Resources and Governance (Pages 81 - 106)
12. Quarter 3 Prudential Indicators and Treasury Management Monitoring Report – Report of the Executive Director Resources and Governance (Pages 107 - 114)
13. External Audit Annual Plan 2024/25 - Verbal Update from Forvis Mazars
14. SUPPLEMENTARY ITEM(S) (if any) which in the opinion of the Chair of this Committee are of an urgent nature and can be discussed at this meeting
15. Questions



Amy Wennington
Assistant Director Law and Governance

Tuesday, 22 April 2025

Town Hall
Darlington.

Membership

Councillors Baker, Durham, Henderson, Keir, McGill and Beckett

If you need this information in a different language or format or you have any other queries on this agenda please contact Olivia Hugill, Democratic Officer, Resources and Governance, during normal office hours 8.30 a.m. to 4.45 p.m. Mondays to Thursdays and 8.30 a.m. to 4.15 p.m. Fridays E-Mail : olivia.hugill@darlington.gov.uk or telephone 01325 405363

AUDIT COMMITTEE
Monday, 20 January 2025

PRESENT – Councillors McGill, Baker and Garner

APOLOGIES – Councillors Durham, Henderson, Keir and Gavin Barker (Mazars)

ALSO IN ATTENDANCE – Councillor Porter

OFFICERS IN ATTENDANCE – Lee Downey (Complaints and Information Governance Manager), Andrew Barber (Audit and Risk Manager, Stockton Borough Council), Brett Nielsen (Assistant Director Resources), Judith Murray (Finance Manager), Campbell Deardren (Mazars) and Olivia Hugill (Democratic Officer)

A29 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A30 VICE-CHAIR

RESOLVED – That Councillor Baker be appointed as Vice-Chair of this Committee.

A31 TO APPROVE THE MINUTES OF THIS AUDIT COMMITTEE HELD ON 4 NOVEMBER 2024

Submitted – The Minutes (previously circulated) of the Audit Committee held on 4 November 2024.

RESOLVED – That the Minutes of the Audit Committee held on 4 November 2024 be approved as a correct record.

- (i) Submitted – The Minutes (previously circulated) of the Audit Committee held on 25 November 2024.

RESOLVED – That the Minutes of the Audit Committee held on 25 November 2025 be approved as a correct record.

A32 AUDIT SERVICES - ACTIVITY REPORT

The Audit and Risk Manager submitted a report (previously circulated) to provide Members with a progress report of activity and proposed activity for the next period.

The submitted report outlined progress to date on audit assignment work, consultancy/contingency activity and highlighted the change in approach from traditional audit assignments to individual control testing and reporting and the different approach in terms of reporting on activity to be developed further in the coming months; and the move away from annual audit planning to quarterly planning to enable the service to respond more effectively to the changing risk environment.

Also previously circulated was detailed feedback on the performance of the service and the position in relation to completion of audit work.

Conversation ensued around what percentage of the training was mandatory, how the percentage of completed training could be raised and what would happen if the percentage was not met.

RESOLVED – That the activity and results be noted.

A33 FINAL ACCOUNTS TIMETABLE FOR THE YEAR ENDED 31 MARCH 2025

The Executive Director of Resources and Governance submitted a report (previously circulated) to provide Members with the Final Accounts Closedown Timetable for 2024/25. The timetable detailed the target dates for key actions in order to complete the Statement of Accounts (SoA) in line with statutory deadlines.

The report stated that under the regulations it was the responsibility of the Group Director to sign and certify the unaudited SoA 2024/25 by no later than 30 June 2025 and that it would also be the responsibility of the Audit Committee to approve the 2024/25 audited set of accounts on or before the 27 February 2026.

It also detailed that the final accounts timetable served as a tool for monitoring progress against the target dates to ensure compliance with the statutory deadlines. The enclosed timetable will aimed to comply with the date of 30 June for the unaudited SoA so that there is less disruption to the normal work schedule for the council.

Members asked for more information on the new and amended processes which were considered for the impact on the achievement dates.

RESOLVED – That the report be noted.

A34 HALF YEARLY RISK MANAGEMENT REPORT 2024 2025

The Chief Executive submitted a report (previously circulated) advising Members on the approach to and the outcomes of the Council's Risk Management process.

It was reported that Risk Management was an essential part of the effective and efficient management and planning which strengthened the ability of the Council to achieve its objective and enhance the value of services provided, and that positive progress continued to be made within the Authority regarding the management of the key strategic risks and with the work undertaken by Officers to manage operational risk.

Members opened discussion to the Risk Management Report, SR27 of the report detailed the risk of failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures, Members asked for more detail on why there had been no movement in that period.

Members discussed the increased demand for Adult Services impacts negatively on plans for

budget efficiencies (SR20) and how this risk is covered. Questions were raised regarding the risk of the Council not existing and whether this should be part of the Risk Management Report.

RESOLVED – That the report be noted.

A35 PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT STRATEGY REPORT 2025-26

The Executive Director of Resources and Governance submitted a report (previously circulated) for Members of this Audit Committee to review and scrutinise the Prudential Indicators and Limits for 2025/26 to 2027/28 relating to capital expenditure and Treasury Management activity; a policy statement relating to the Minimum Revenue Provision; the authorised limit; and the Treasury Management Strategy 2025/26, which includes the Annual Investment Strategy for 2025/26, prior to approval and adoption by Cabinet and Council.

The submitted report outlined the Council's Prudential Indicators for 2025/26- 2027/28 and set out the expected treasury operations for this period and it was reported that the Council's capital expenditure plans, Treasury Management and Prudential Borrowing activities indicated that they were within the statutory framework and consistent with the relevant codes of practice; prudent, affordable and sustainable; and were an integral part of the Council's Revenue and Capital Medium Term Financial Plans.

The submitted report also included a mid-year Treasury Management progress report to update members on the capital position, amending prudential indicators as necessary, and whether the treasury function was meeting the strategy or whether any policies required revision.

It was reported that the Treasury Management Strategy for 2024/25 will cover two main areas, Capital Issues and Treasury Management Issues and a summary of the key prudential indicators and limits were also contained within the submitted report; and these elements covered the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry of Housing, Communities and Local Government (MHCLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

It was also highlighted that the CIPFA Prudential code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management and training was undertaken by a number of Members during a session held in January 2024 and further sessions would be arranged as required.

The report stated under the MRP Policy Statement for 2025/26 that for the IFRS 16 Right Use of Assets the MRP would be measured as being equal to the element of the rent/charge for the asset, Members sought further clarification what this would mean for the Council.

RESOLVED - That this Audit Committee is satisfied with the Prudential Indicators and Treasury Management Strategy for 2025/26 to 2027/28, the Minimum Revenue Provision statement, the Treasury Management Strategy 2025/26 to 2027/28 and the Annual Investment Strategy 2025/26, as presented in the submitted report, and that the report be forwarded to Cabinet for its onward referral to Council for consideration.

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AUDIT COMMITTEE

Monday, 24 February 2025

PRESENT – Councillors Henderson (Chair), Baker, Durham, Keir, McGill and Beckett

OFFICERS IN ATTENDANCE – Brett Nielsen (Assistant Director Resources), Judith Murray (Finance Manager) Campbell Dearden (Forvis Mazars), Gavin Barker (Forvis Mazars) and Olivia Hugill (Democratic Officer)

A36 DECLARATIONS OF INTEREST

There were no declarations of interest reported at the meeting.

A37 ANNUAL STATEMENT OF ACCOUNTS 2023/24

The Executive Director of Resources & Governance submitted a report (previously circulated) to present a report by the Council's external auditors, Forvis Mazars on the audit for the year ended 31 March 2024.

It was reported that; In accordance with the Accounts and Audit (Amendment) Regulations 2022, all Local Authorities were required to produce the draft annual Statement of Accounts by 31 May 2024 and an audited set published by 30 September 2024. As it had been previously outlined to this Committee, the Accounts and Audit (Amendment) Regulations 2024 introduced a series of backstop dates up to 2027/28.

The report explained that the backstop for the 2023/24 accounts was the 28 February 2025 and that this audit has been undertaken by our new auditors Forvis Mazars. It also explained that due to the length of time between this backstop date and the date of sign off for the disclaimer of opinion of the 2022/23 accounts from our previous auditors Ernst and Young LLP (EY) that it was not reasonable to assume that a full audit would be possible.

The report also detailed that Forvis Mazars had determined that there was insufficient time to complete their full audit procedures and obtain sufficient appropriate evidence to provide an opinion on the 2023/24 accounts. This meant that they therefore intend to issue a disclaimer of opinion on the Council's financial statements. The report also explained that Darlington were not alone to receive a disclaimer of opinion and that this was a national issue resulting from the introduction of backstop dates to clear the audit backlog and rebuild assurance.

Forvis Mazars were also required to report to management and the Audit Committee any significant deficiencies in internal control identified during their audit. In regard to this Forvis Mazars had not identified any significant deficiencies in internal control.

Discussion opened around the statement of accounts for 2023/24, Members wanted to understand what percentage of the audit had been completed and whether the backlog would stop now after this set of accounts.

Conversation ensued around the value for money and whether the reduction in this year's fee could be carried over to next year. Members also questioned whether there was any indication from the Government to help with the increased fees.

Members wanted clarification around whether there were any material changes from the draft report presented at the last committee and if any risks or concerns would be reported at this meeting.

The committee explained that they look forward to the first full audit and appreciated the current work completed so far by Forvis Mazars.

RESOLVED -

- a) The Auditor's Strategy and Completion Report for the year ended 31 March 2024 be noted.
- b) Members noted and approved the Letter of Representation in Appendix A of the Audit Strategy and Completion Report.
- c) The Auditor's Annual Report for the year ended 31 March 2024 be noted.
- d) The Audit Committee noted (and subsequently approve when the audit is complete) the attached IFRS compliant Statement of Accounts at **Annex 2** for the 2023/24 financial year.

A38 ANNUAL GOVERNANCE STATEMENT

The Chief Executive submitted a report (previously circulated) seeking approval of the Council's draft Annual Governance Statement (AGS) (also previously circulated).

It was reported that most local authorities financial statements for 2023/24 remain unaudited, as a result of delays in the external audit process. Publication of the AGS follows the same timetable.

The Accounts and Audit Regulations 2015 (and subsequent amendment regulations 2020, 2021, 2022, and 2022)) require local authorities to prepare, approve and publish, each year an AGS. These regulations also determine the timetable for approval and publication and the Council must publish its draft AGS no later than 31 May 2024 and its final audited version no later than 28 February 2025..

It was also reported that as a consequence of the aforementioned delays the draft unaudited AGS was published on 24 June 2024.

The Council has updated paragraph 142 in the final 2023/24 AGS to reflect, the Council's external auditors Forvis Mazars are expected to give a disclaimed rather than an unqualified opinion on the Council's 2023/24 accounts by the target date of 28 February 2025 rather than the 31 May 2025.

The report explained that the external auditors suggested that the Council update

paragraph 143 in the final draft 2023/24 AGS, to reflect the revised approach to auditing the Council's arrangements for ensuring the economy, efficiency and effectiveness in its use of resources. Also detailed was a further suggestion from the external auditors, the Council has updated paragraph 98 to reflect the conclusions of the Internal Audit Annual Report for 2023/24. This has been included in the final draft AGS.

The committee was notified that paragraph 4 of the AGS had been updated for the final version to take account of the final regulations. This paragraph now reads "This Statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit (Amendment) Regulations 2024, in relation to the publication of an AGS".

RESOLVED – That the draft Annual Governance Statement for 2023/24, as appended to the submitted report, be approved.

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**AUDIT COMMITTEE
30 APRIL 2025**

ICT STRATEGY – IMPLEMENTATION PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Chief Officer's Board (COB) is required to report six-monthly to the Audit Committee on progress in relation to the implementation of the ICT Strategy.

Summary

2. The revised ICT Strategy focusses on three strategic priorities:
 - (a) ICT Governance and Service Development
 - (b) ICT Strategic Architecture
 - (c) Council Service Development and Transformation
3. This report summarises progress on the main activities within each of these priorities.

Recommendation

4. It is recommended that progress on the implementation of the ICT Strategy be noted.

Reason

5. The recommendation is supported to provide the Audit Committee with evidence to reflect on progress in delivery of the Council's ICT Strategy.

**Andy Evans
Head of ICT Services – Xentrall Shared Services**

Background Papers

Darlington ICT Strategy 2022

Andy Evans - Extension 528472

Council Plan	The ICT Strategy supports the business of the Council Plan by ensuring appropriate ICT systems are available, reliable and secure.
Addressing inequalities	There is no specific impact on addressing inequalities.
Tackling Climate Change	Initiatives contained within ICT Strategy will help contribute towards the carbon reduction commitments.
Efficient and effective use of resources	Efficiency savings will be generated through the implementation of the ICT Strategy. The introduction of new technology is key to the delivery of savings within Council services.
Health and Wellbeing	There is no specific Health and Wellbeing impact.
S17 Crime and Disorder	There is no specific crime and disorder impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	Financial implications will be considered in the Medium-Term Financial Plan. This report does not affect the policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

6. Progress on the three strategic themes of the ICT Strategy within the reporting period is described below.

ICT Governance and ICT Service Development

7. The Systems and Information Governance Group (which is the Chief Officers Board of Assistant Directors but chaired by the Executive Director - Resources and Governance) undertakes an ICT Strategy monitoring role as well as overseeing and approving the ICT Work Plan, which covers all service based and corporate ICT projects. As well as this forum, updates on major ICT projects are also given to the Executive Director - Resources and Governance and to the meetings of the Xentrall Executive Board on which she sits.
8. Darlington Council has been awarded PSN (Public Service Network) certification by the Cabinet Office for the next financial year 25/26 and work is already under way to prepare the 26/27 submission. The external penetration test of the Darlington network by an approved assessor is scheduled and once complete ICT will work through the recommendations. Xentrall ICT have also taken part in the MHCLG testing of the new CAF (Cyber Assessment Framework) which aims to document the interdependencies of key line of business applications helping to improve security and resilience. Darlington Council successfully completed the "Get CAF Ready" Programme in January 2025 and are now an early adopter of this new cyber security standard.
9. As well as the external programme of assessment, ICT continues to work closely with the Councils Internal Audit team. Several new audit controls have been reviewed during this reporting period including the ICT Change Control process, ICT Health checks and a review of the Cyber Security posture. All have been classified as "green" on a red/amber/green rating system.
10. In terms of ICT service development and related to the two ISO certifications and internal audits, all ICT service improvement activities are identified in the ICT Service Improvement Programme, and this continues to be managed and monitored by the ICT Management Team, supported by the ICT Security & Process Excellence Officer. This group reviews the progress and priorities of this extensive and continual programme which is resourced through a combination of business-as-usual activities and planned projects within ICT. As part of the annual recertification work ICT have successfully retained both ISO 90001 (Quality Management Systems) and 27001 (Information Security Management) standards.
11. ICT continue to work with the Information Governance Team to deliver regular Phishing email simulation exercises designed to educate and raise awareness of the dangers posed by malicious email campaigns. Two further exercises were completed in this reporting period. The findings have been passed to Information Governance who will use them to refine the approach to user education and communication. Security controls that filter malicious emails coming into the organisation continue to be reviewed and strengthened.
12. One of the greatest cyber threats to the Council currently is that of a supply chain attack, an attack against ICT system providers who may indirectly manage or handle critical data. In order to mitigate this threat, ICT have introduced a new product Risk Ledger. This system

will help to identify and manage the risks posed by the suppliers of third-party software applications to the Council by continuously reviewing their cyber security posture and associated accreditations.

13. As part of the assessment of the current ICT landscape as well as the development of Council strategies such as Digital, the Xentrall ICT Strategy 2020 -2024 is currently under review. A new version which will support the business objectives of the Council over the next few years will be published in June 2025.

ICT Strategic Architecture

14. ICT continues to ensure high levels of system availability, reliability, and security through the delivery of major project work. Notable deliverables include:
 - (a) The refresh of the Councils WAN (Wide Area Network) is now complete, with new faster and more reliable fibre connectivity delivered to the 19 remote or satellite sites across the town. These new circuits will deliver significant savings as well as providing the Council with a platform to deliver new and innovative services to residents.
 - (b) Following swiftly on from the WAN project, the next stage of the network upgrade has already commenced. A new project will refresh hardware across all sites including the Town Hall. This project is expected to take 18-24 months to deliver and once complete it will enhance the reliability of the network, improve security and deliver improved Wi-Fi Services, supporting the continued development of the Councils Digital Strategy. The first major milestone in this project, the replacement of the Core Switch infrastructure within the Darlington Town Hall will be completed by the end of March 2025.
 - (c) During this reporting period ICT have worked at pace to refresh and replace key technology platforms such as the corporate VPN (Virtual Private network) which securely manages external access to Council applications e.g. Agresso Finance for schools. The Netcall Call Centre solution has also recently been refreshed and moved on to the Councils virtual server platform. This work removes the need for future investment in physical server hardware and improves availability and reliability for what is a vital point of contact for residents across Darlington.
 - (d) In order to ensure users benefit from the most update and secure operating system ICT has completed the migration project to move all of our 1700 users from Windows 10 to Windows 11. This work took 12 months and involved extensive testing to ensure the line of business applications used across Darlington continue to work reducing the impact and potential downtime for our users. This work was complete at the end of March 2025 well in advance of the end-of-life deadline of October 2025. After which Windows 10 will no longer be supported by Microsoft.

Council Service Development and Transformation

15. The service-based Information & Systems Strategies including the recently launched Digital Darlington Strategy 2025-30 inform the ICT Work Plan, this in turn drives customer projects within the ICT service. As well as the management and monitoring of individual projects, the

overall ICT Work Plan is monitored at the Systems and Information Governance Group (SIGG is described in paragraph 7 above). These ICT projects underpin many of the Council's business change activities. SIGG also reviews the Web Team Workplan and the Systems and Process Team Workplan and thereby has a whole view of ICT-related activities across the Council.

16. As well as some of the central ICT architecture projects listed above, twelve additional Darlington specific projects have been completed since the last progress report to this committee including the completion and closure of the Hopetown Darlington ICT project. Other examples of projects and major milestones include:
 - a) The completion and closure of the Council CRM platform with new servers, environments and reporting systems.
 - b) Enablement of school transport staff with mobile ICT facilities.
17. Xentrall ICT continue to work closely with The System Strategy and Development Team to support the roll out of Microsoft Teams across all Services. Most recently Housing (including Lifeline) have been moved into Teams and work is progressing at pace with the next data migrations involving Social Care, both Adults and Children's. Once across to Teams there are additional benefits the Council can leverage in terms of Data Governance and Security.
18. Following the launch of the new Digital Strategy the Systems Team have commenced a proof of concept to understand the potential benefits of AI transcription tools such as Minute, Magic Notes. ICT are supporting the evaluation process and the development of a business case.

Outcome of Consultation

19. There has been no formal consultation in the preparation of this report.

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**AUDIT COMMITTEE
30 APRIL 2025**

ETHICAL GOVERNANCE AND MEMBER STANDARDS – UPDATE REPORT

SUMMARY REPORT

Purpose of the Report

1. To update members on issues relevant to member standards and ethical governance.

Summary

2. The report gives members an update of information about issues relevant to member standards since matters were reported to the Committee in November 2024.
3. Also set out in the report are a number of datasets of ethical indicators to assist in monitoring the ethical health of the Council. By reviewing these indicators it is hoped to be able to identify any unusual or significant trends or changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
4. Commentary is included for some data sets to give analysis and explanation for some of the more notable variations. There are no particular issues of concern that have been identified from reviewing the data.

Recommendation

5. Members are asked to note the information presented and to comment as appropriate.

Reasons

6. By having information of this nature:
 - (a) Members will be assisted to perform their role.
 - (b) Members will be able to get a better picture of the ethical health of the authority.

**Amy Wennington
Assistant Director, Law and Governance
Monitoring Officer**

Background Papers

None – save as mentioned in the text

Amy Wennington: Extension 5490

Council Plan	Strong ethical governance arrangements and standards are important in the delivery of the Council Plan
Addressing inequalities	There is no direct impact
Tackling Climate Change	There is no direct impact
Efficient and effective use of resources	There is no direct impact
Health and Wellbeing	There is no direct health and wellbeing impact
S17 Crime and Disorder	There are no specific issues which relate to crime and disorder
Wards Affected	All wards are affected equally
Groups Affected	All groups are affected equally
Budget and Policy Framework	This report does not affect the budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Update on matters relevant to Ethical Governance and Member Standards

Committee on Standards in Public Life

7. The Committee on Standards in Public Life (CSPL) advises the Prime Minister, national and local government about ethical standards in public life in England. It monitors, conducts broad inquiries and reports on issues relating to the standards of conduct of all public office holders.
8. In 2024 the CSPL announced that it would be carrying out a review looking at accountability within public bodies and the importance of acting on early warning signs of failure or concern. On 25 March 2025 the CSPL published their report: [Recognising and Responding to Early Warning Signs in Public Sector Bodies](#).
9. The report includes examples of how organisations have sought to identify and respond to the early warning signs of emerging problems and identifies 20 points for reflection to assist leaders to consider whether improvements can be made to their organisations' processes and culture, and which employees can use to hold their leaders to account.
10. On 28 March 2025 the Prime Minister wrote to the Chair of the CSPL welcoming the report and stating: "...restoring trust in politics is the great test of our era, and upholding the Seven Nolan Principles of Public Life is crucial to the success of this Government." The Prime Minister's letter can be viewed [here](#).
11. For more general information about the CSPL and the wider recent work of the CSPL – this can be viewed from the following link [Committee on Standards in Public Life - GOV.UK \(www.gov.uk\)](#)

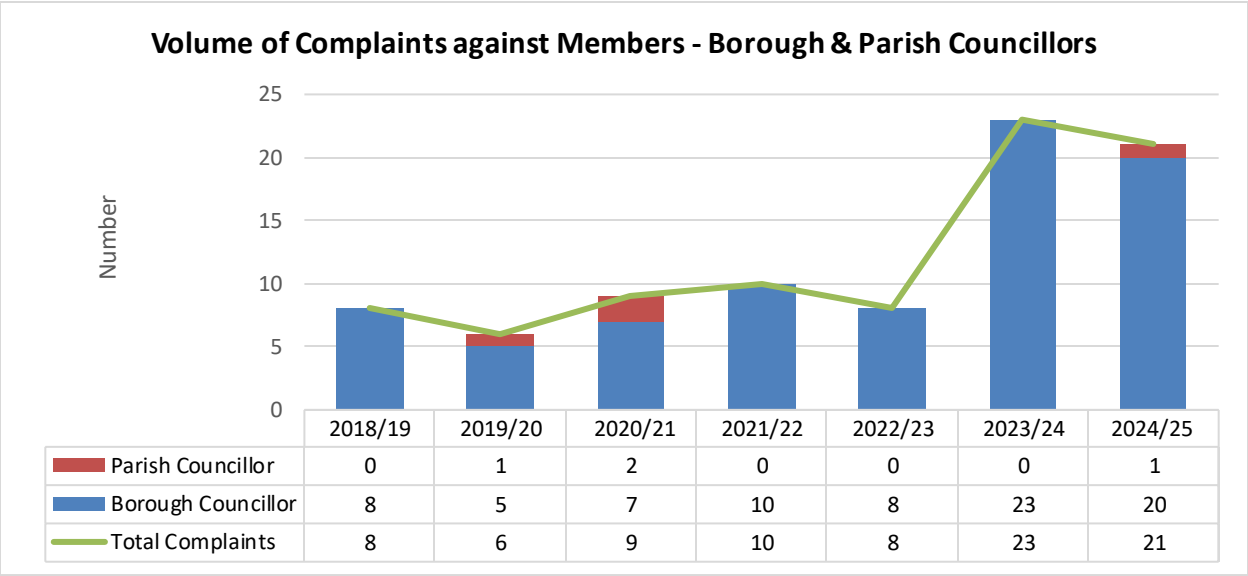
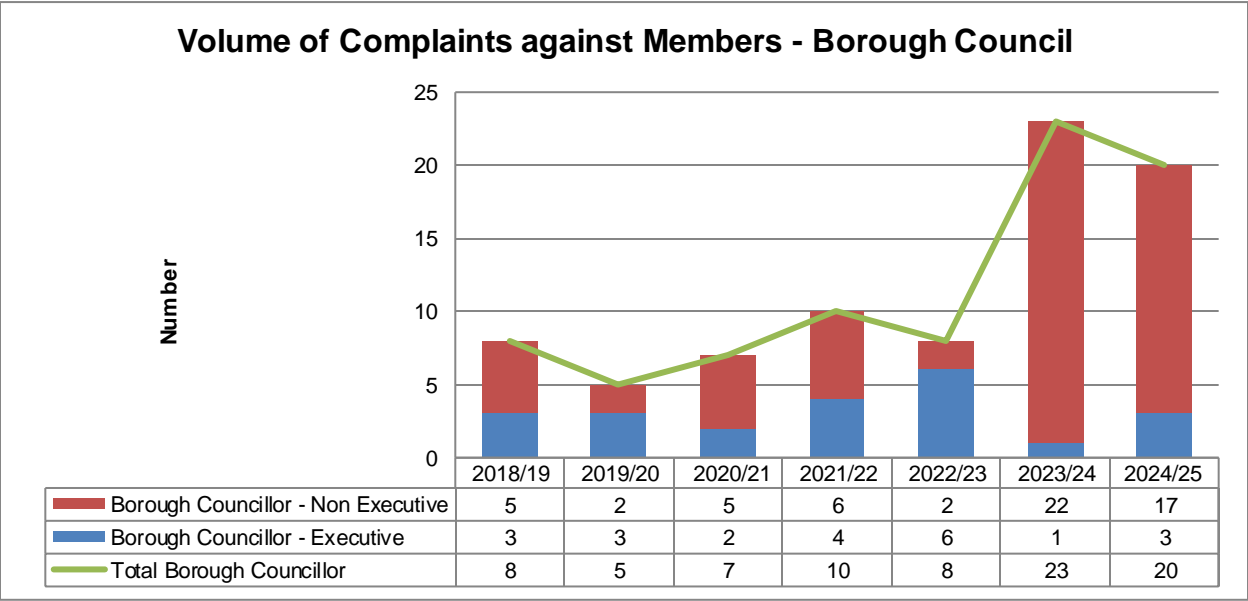
Code of Conduct

12. The Monitoring Officer will provide refresher training on the Members Code of Conduct in late Summer/early Autumn 2025.
13. Register of Interests reminders to members were sent in early April and any website updating that may be required in consequence is in hand.

Ethical Indicators

14. Set out in **Appendix 1** are a range of data sets that it is hoped will assist in monitoring the ethical health of the Council. By reviewing the indicators, it will be possible to identify any unusual or significant changes in the volume of data recorded for the relevant period that might provide an alert to any deterioration in the ethical health of the authority.
15. A more detailed breakdown of Member complaints received and outcomes can be found at **Appendix 2**.
16. Member's observations about this information are invited.

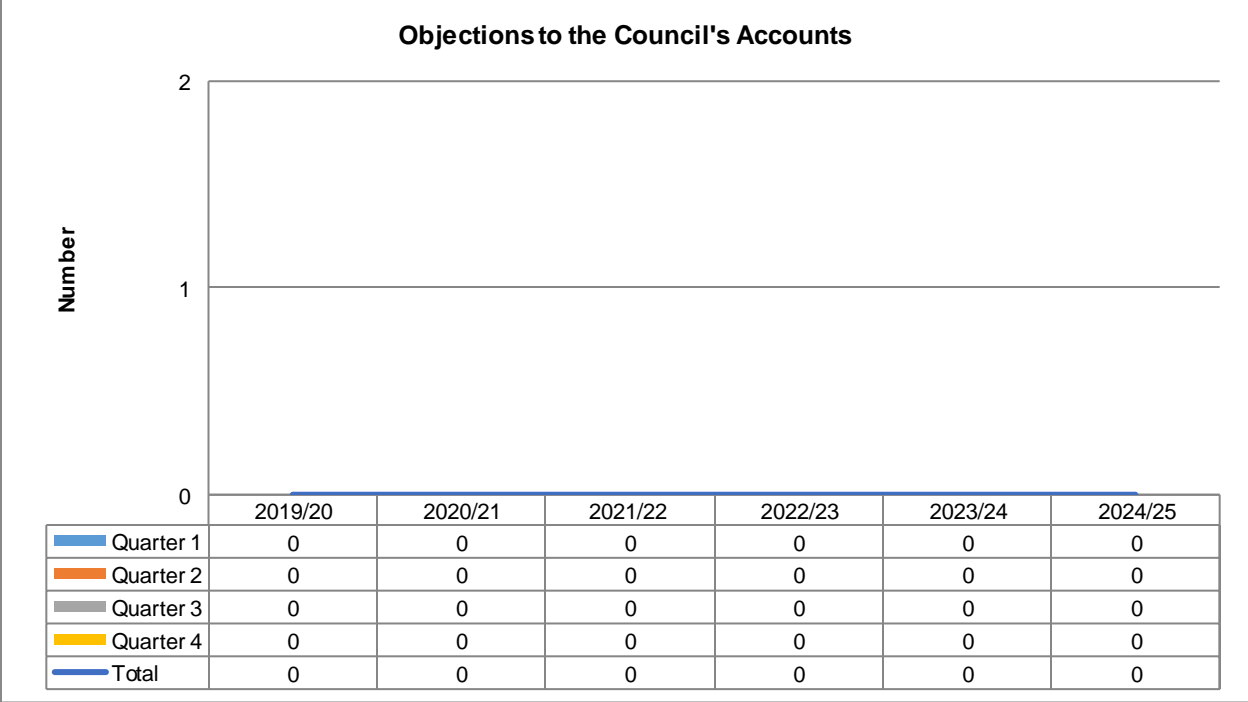
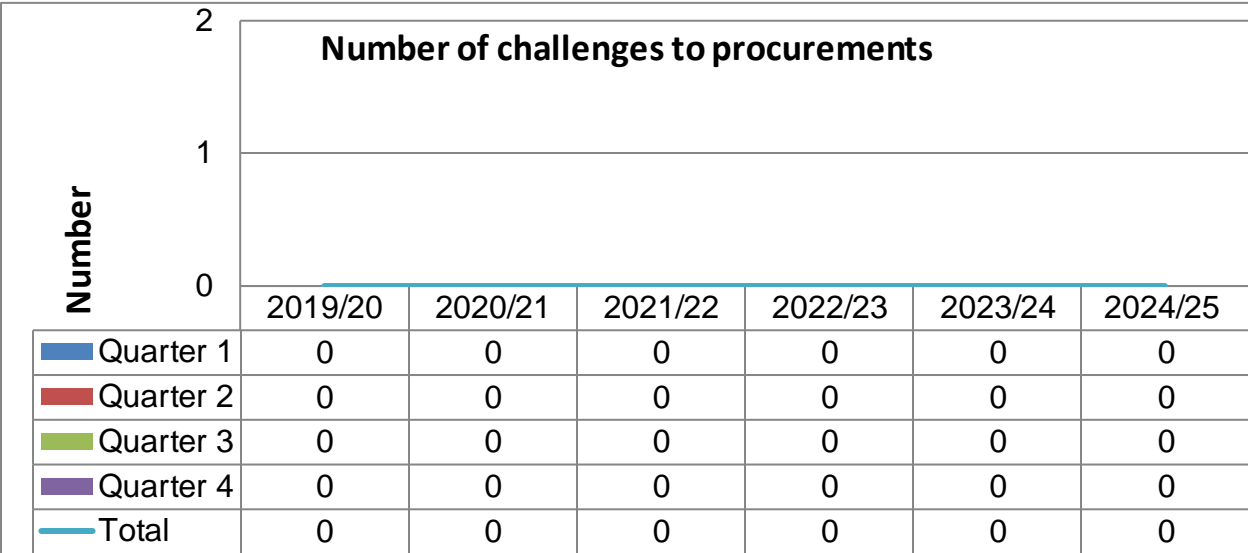
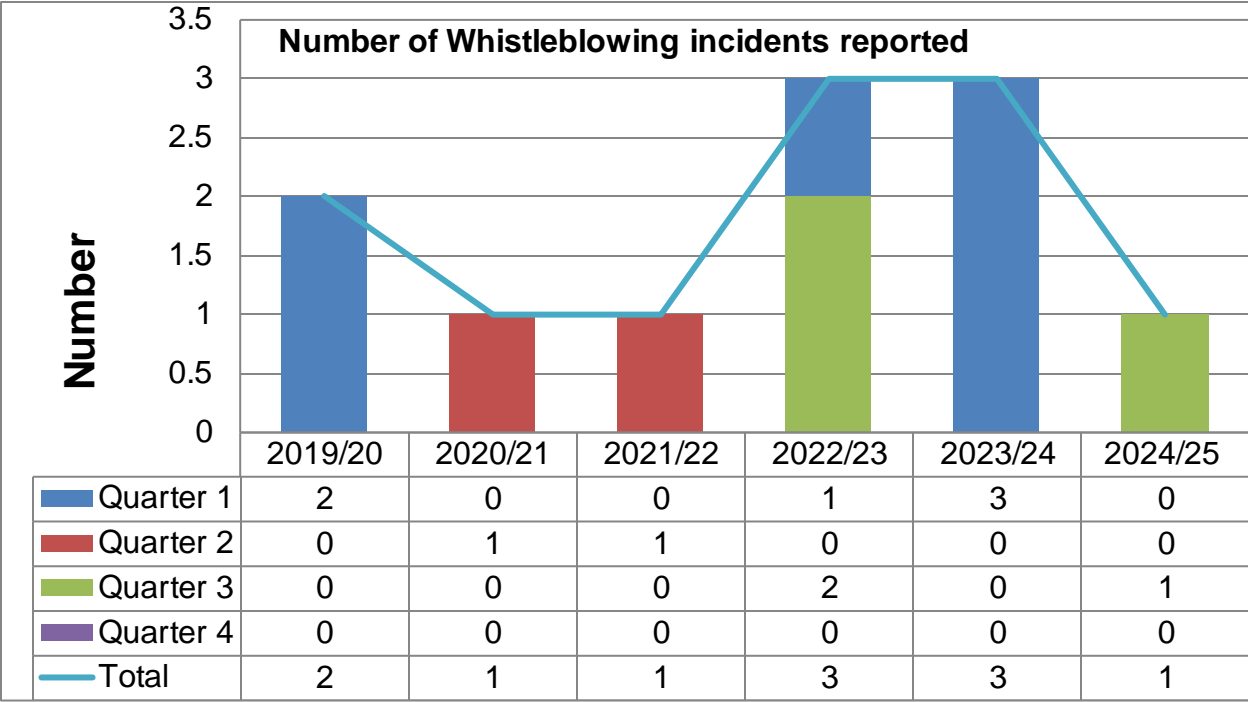
Member Complaints

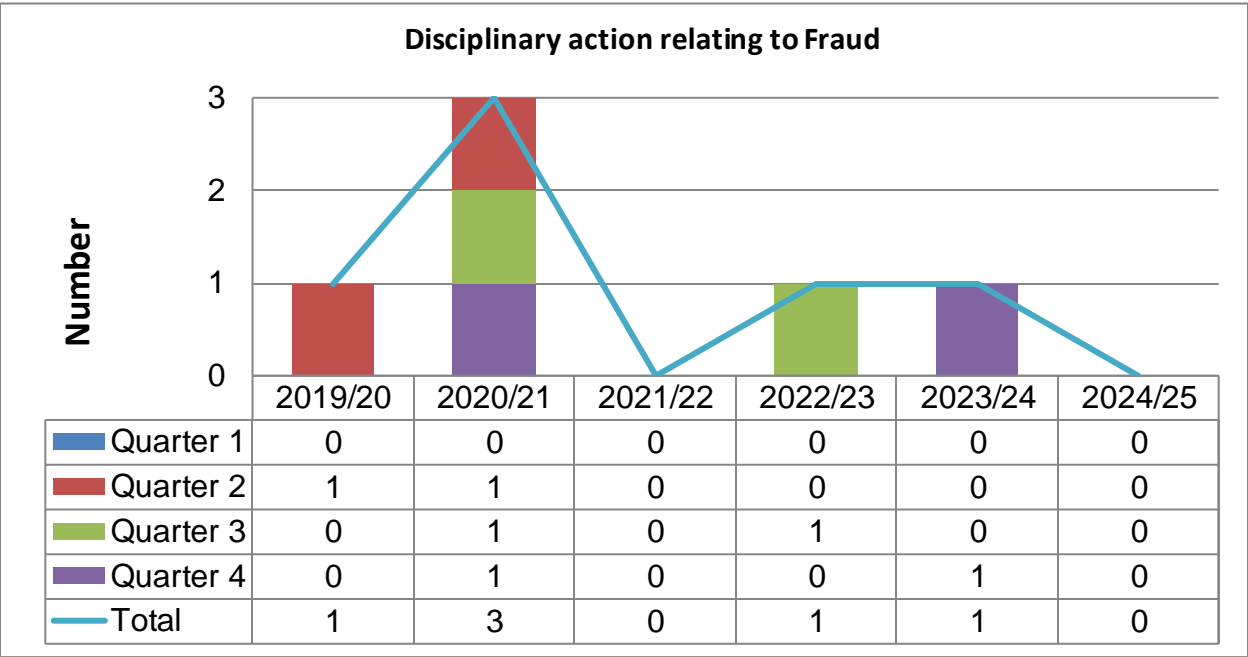
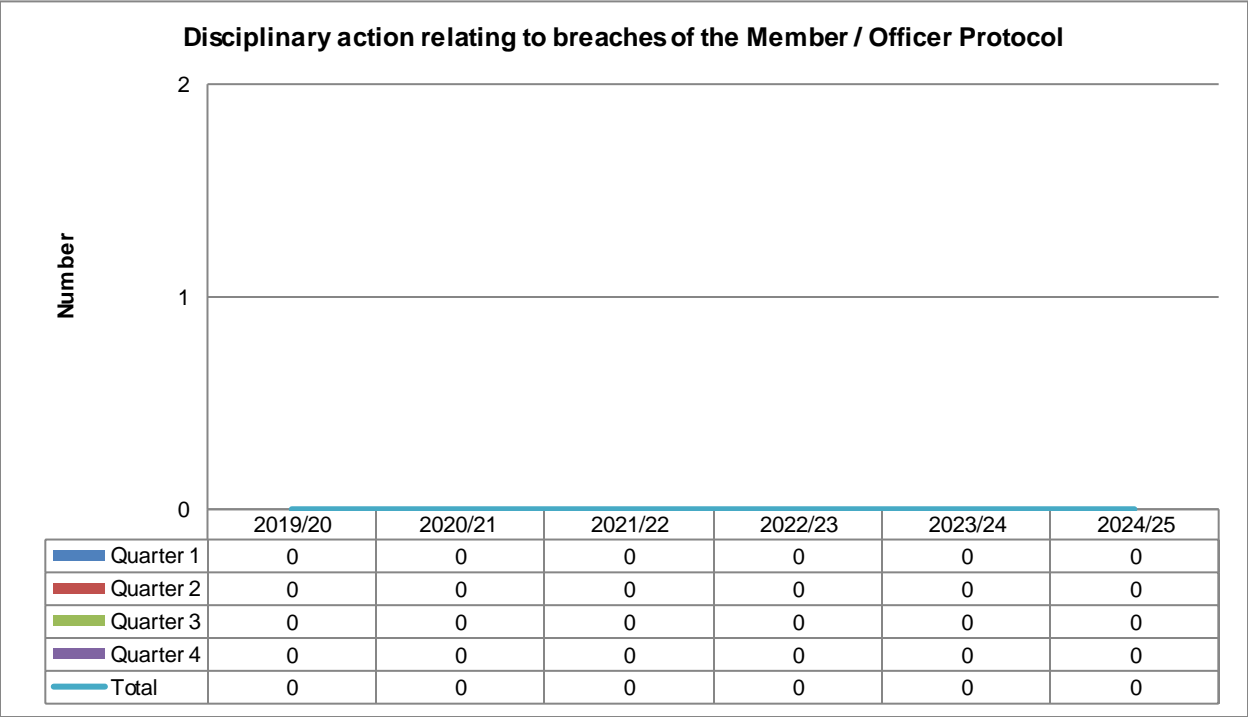


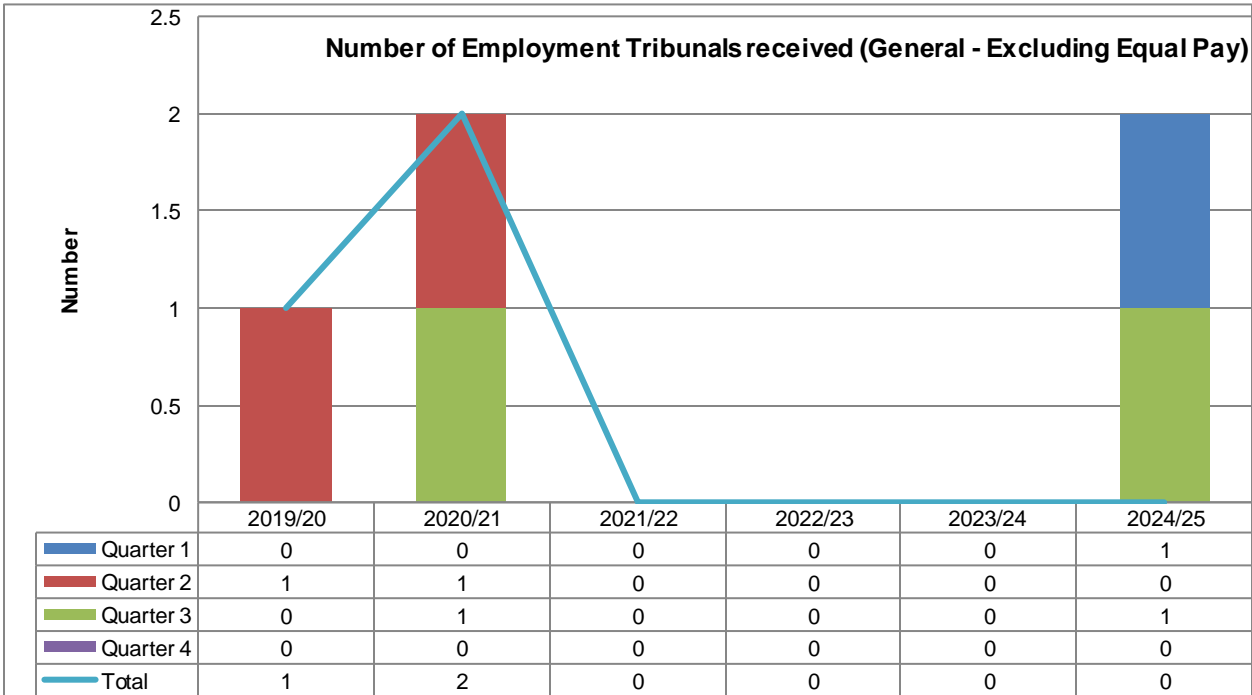
Comments

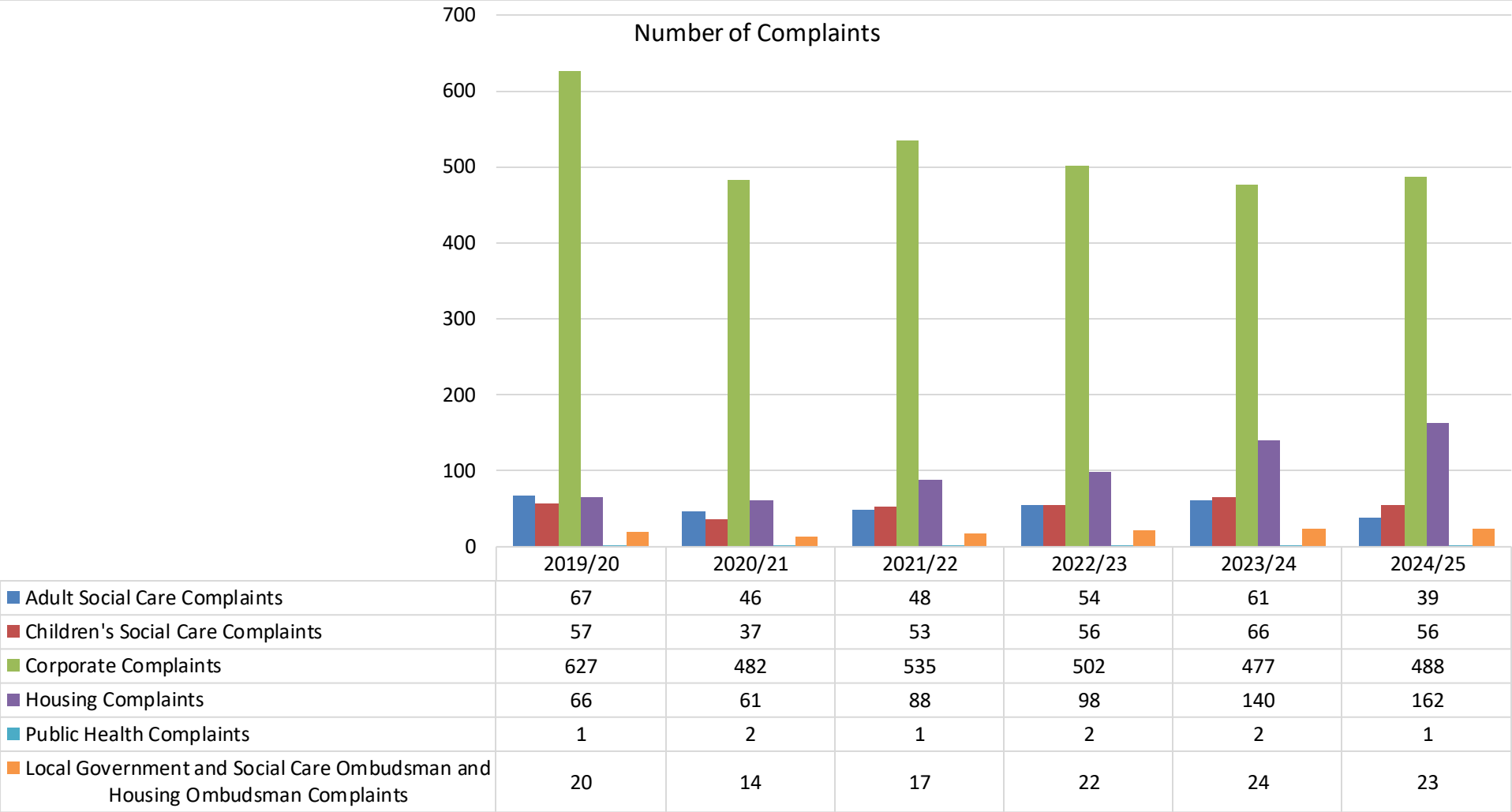
There has been a slight decrease in the number of complaints received during 2024/25 compared to those received in 2023/24.

A more detailed breakdown of Member complaints received and outcomes can be found at Appendix 2.





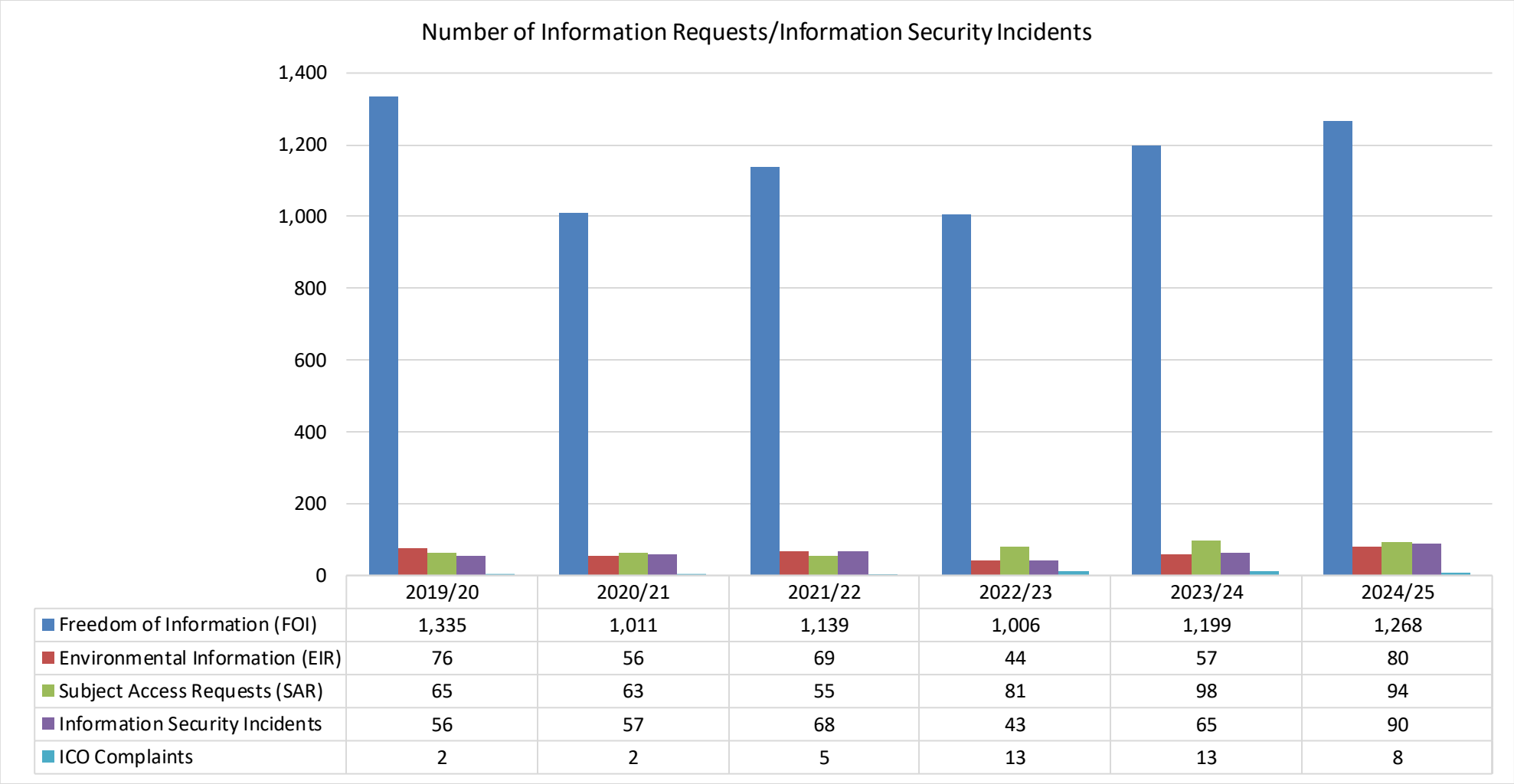




Comments

2023/24 - while there was an increase in the number of adult social care complaints received, 61 compared to 54 in 2022/23, complaint numbers remained slightly lower than pre-pandemic levels. There was an increase in the number of stage 1 children's social care complaints received, 66 compared to 56 in 2022/23, meaning that for the first time Stage 1 complaints were higher than pre-pandemic levels. There was a decrease in the number of corporate complaints received, 477 compared to 502 in 2022/23, meaning complaint numbers remained significantly lower than pre-pandemic levels. While that was the case there was a significant increase in the number of corporate complaints received at Stage 2. There was an increase in the number of Stage 1 housing complaints received, 140 compared to 98 in 2022/23, which remained significantly higher than pre-pandemic levels, as well as an increase in the number of Stage 2 complaints received. Public health complaints remain low, a total of 2 complaints were received, the same number as in 2022/23.

2024/25 – The Council saw a significant decrease in the number of adult social care complaints received, 39 compared to 61 in 2023/24. There was also a significant decrease in the number of children's social care complaints received, 56 compared to 66 in 2023/24. There was an increase in the number of corporate complaints received, 488 compared to 477 in 2023/24 and a significant increase in the number of housing complaints received, 162 compared to 140 in 2023/24.



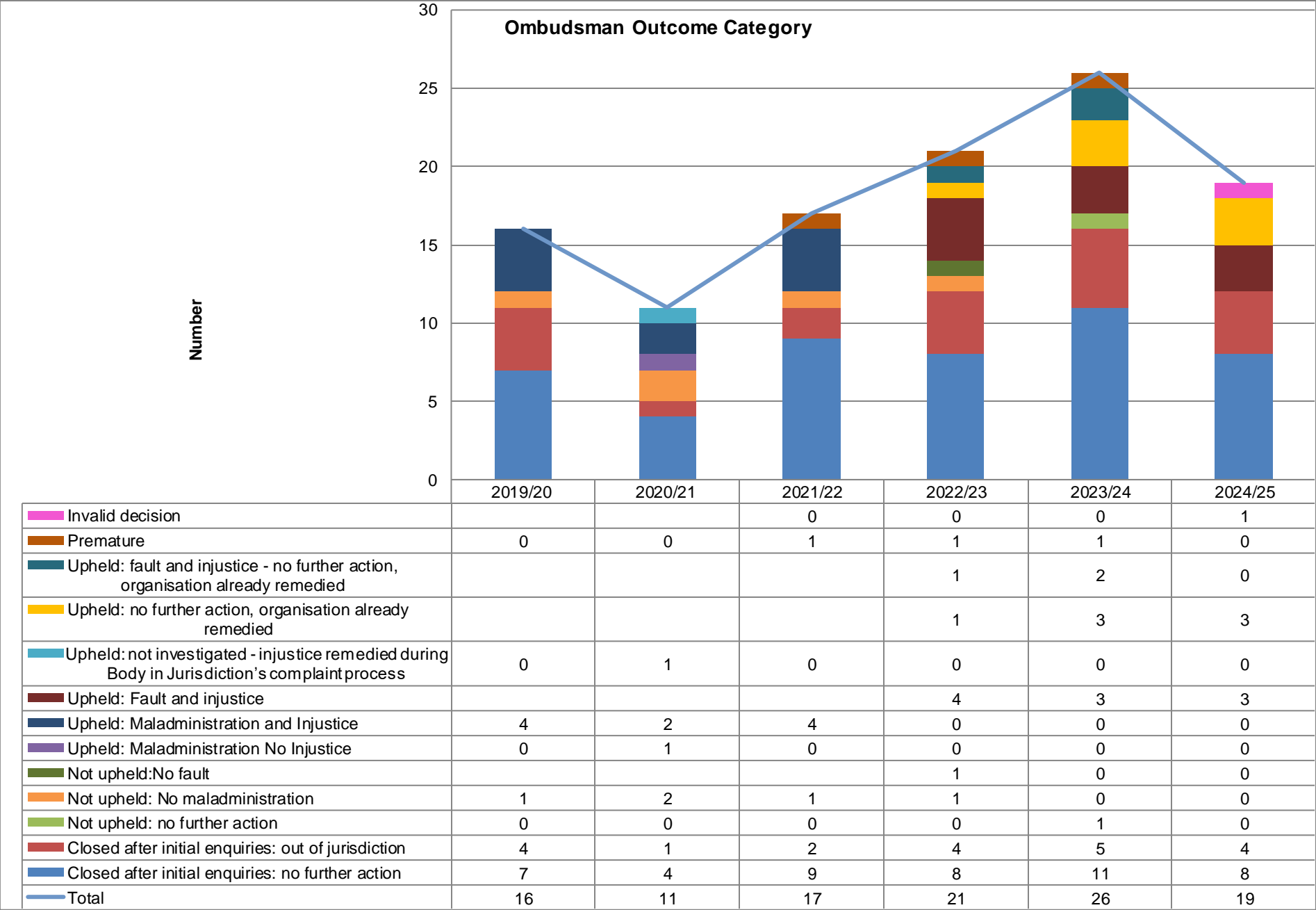
Comments

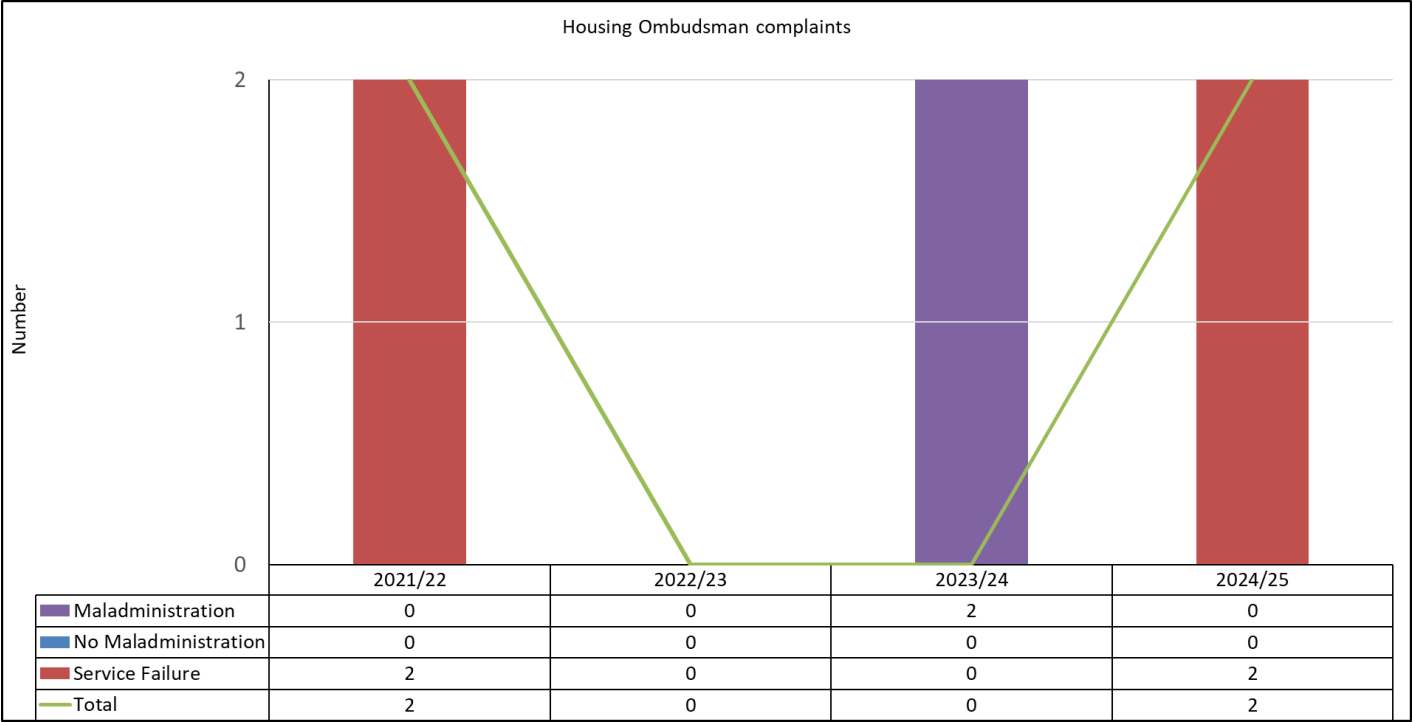
2023/24 – The Council saw an increase in the number of FOI requests received, 1,199 an increase from 1,006 in 2022/23. This will ensure an increased level of transparency and accountability. The Council also saw an increase in the number of EIR requests, 57 compared to 44 in 2022/23. The Council saw an increase in the number of SARs, 98 compared to 81 in 2022/23. The Council also saw an increase in the number of information security incidents reported, 65 compared to 43 in 2022/23. The Council received the same number of ICO complaints as in 2022/23.

2024/25 – The Council saw an increase in the number of FOI requests received, 1,268 compared to 1,199 in 2023/24. The Council also saw an increase in the number of EIR requests received, 80 from 57 in 2023/24. The Council saw a slight decrease in SARs, 94 compared to 98 in 2023/24. The Council saw a significant increase in information security incidents reported, 90 compared to 65 in 2023/24. The Council saw a reduction in the number of ICO complaints received, 8 compared to 13 in 2023/24.

* *The Local Government and Social Care Ombudsman (LGSCO) has updated the decision outcomes they use in 2022. As a result, it is not possible to make a direct comparison with previous years. However, the new decisions in bold/italics in the table below are broadly comparable to those previous decisions in italics above.*

	2021/22	2022/23	2023/24	2024/25
Closed after initial enquiries: no further action	9	8	11	8
Closed after initial enquiries: out of jurisdiction	1	4	5	4
Not upheld: no further action	0	0	1	0
<i>Not upheld: No maladministration</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>0</i>
<i>Not upheld: No fault</i>	<i>N/A</i>	<i>1</i>	<i>0</i>	<i>0</i>
<i>Upheld: Maladministration and Injustice</i>	<i>4</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Upheld: Fault and Injustice</i>	<i>N/A</i>	<i>4</i>	<i>3</i>	<i>3</i>
Upheld: Maladministration, No Injustice	0	0	0	0
Upheld: not investigated - injustice remedied during Body in Jurisdiction's complaint process	0	0	0	0
<i>Upheld: no further action, organisation already remedied</i>	<i>0</i>	<i>1</i>	<i>3</i>	<i>3</i>
<i>Upheld: fault and injustice – no further action, organisation already remedied</i>	<i>N/A</i>	<i>1</i>	<i>2</i>	<i>0</i>
Premature	1	1	1	0
Invalid decision	0	0	0	1
Total	17	21	26	19





Appendix 2

Complainant	Complainee	Nature of complaint	Assessment	Investigation	Hearing
2024 Quarter 1					
Member of Public	Borough Councillor	Failure to treat with respect;	Code of Conduct did not apply (no case to answer).	n/a	n/a
Member of Public	Borough Councillor	Discrimination	Apparent misunderstanding rather than discrimination. Investigation not warranted. Clarification given to councillor. Code of Conduct did not apply (no case to answer)	n/a	n/a
Member of Public	Borough Councillor	Failure to treat with respect.	Code of Conduct did not apply (no case to answer).	n/a	n/a
Member of Public	Borough Councillor	Failure to treat with respect; disrepute	Code of Conduct investigation instigated	Yes	TBA
Borough Councillor	Parish Councillor	Failure to treat with respect;	Code of Conduct investigation instigated	Yes	TBA
Member of Public	Borough Councillor	Failure to treat with respect; disrepute; discrimination; misuse of position.	No potential breach of Code of Conduct (no case to answer)	n/a	n/a
2024 Quarter 2					
Member of Public	Borough Councillor	Failure to treat with respect; bullying harassment and discrimination; disrepute	Code of Conduct did not apply (no case to answer). Not acting in official capacity as Councillor	n/a	n/a
Unison	Borough Councillor	Failure to treat with respect; disrepute; discrimination	Potential breach – Other action. Meet with Monitoring Officer to discuss/provide information	n/a	n/a
Unison	Borough Councillor	Failure to treat with respect; disrepute; discrimination	Code of Conduct did not apply (no case to answer)	n/a	n/a
Borough Councillor	Borough Councillor	Failure to treat with respect; disrepute; discrimination	Potential breach – Other action. Meet with Monitoring Officer to discuss/provide information	n/a	n/a
Borough Councillor	Borough Councillor	Failure to treat with respect; disrepute; discrimination	Code of Conduct did not apply (no case to answer)	n/a	n/a
Member of Public	Borough Councillor	Failure to treat with respect; disrepute	Code of Conduct did not apply (no case to answer)	n/a	n/a

Complainant	Complainee	Nature of complaint	Assessment	Investigation	Hearing
2024 Quarter 3					
Member of Public	Borough Councillor	Disrepute; seek an advantage or disadvantage	Code of Conduct did not apply (no case to answer)	n/a	n/a
Member of Public	Borough Councillor	Failure to treat with respect	Code of Conduct did not apply (no case to answer)	n/a	n/a
Member of Public	Borough Councillor	Disrepute; Use of position; Use of local authority resources and facilities	Code of Conduct did not apply (no case to answer)	n/a	n/a
Member of Public	Borough Councillor	Failure to act with integrity and honesty; act lawfully; lead by example and act in a way that secures public confidence	Code of Conduct did not apply (no case to answer) – councillor had taken advice from Monitoring Officer prior to complaint on issue raised	n/a	n/a
2024 Quarter 4					
Member of Public	Borough Councillor	Failure to treat with respect; Failure to lead by example; Failure to uphold high standards of conduct	Ongoing		
Member of Public	Borough Councillor	Failure to lead by example and act in a way that secures public confidence; ensure that public resources are used prudently in accordance with the local authority's requirements and in the public interest	Ongoing		
Member of Public	Borough Councillor	Failure to treat with respect; lead by example and act in a way that secures public confidence in the role of councillor	Ongoing		

Complainant	Complaine	Nature of complaint	Assessment	Investigation	Hearing
Member of Public	Borough Councillor	Failure to Act with Openness and Honesty; Obstruction of Information; Failure to Remain Impartial; Making deliberately misleading statements; Harassment and unsolicited contact; undue influence in decision making	Ongoing		
Member of Public	Borough Councillor	Deliberate misrepresentation	Ongoing		

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AUDIT COMMITTEE

30 April 2025

INFORMATION GOVERNANCE PROGRAMME PROGRESS REPORT

SUMMARY REPORT

Purpose of the Report

1. The Systems and Information Governance Group (SIGG) is required to report six monthly to the Audit Committee on progress and planned developments of the information governance programme.

Summary

2. The ongoing delivery of our information governance programme continues to provide the assurance required to reduce our information risks to an acceptable level.
3. Recent/Ongoing work includes:
 - (a) The Microsoft Office 365 Programme.
 - (b) Digital Darlington Strategy and Artificial Intelligence (AI).
 - (c) ICT work plan.
 - (d) Web Team work plan.
 - (e) Systems and Process Team work plan.
 - (f) Information Governance Team Work Plan.
 - (g) Work to achieve our target for the completion of on-line mandatory information governance training courses.
4. The area of highest priority in the information governance programme is:
 - (a) The Microsoft Office 365 Programme.

Recommendation

5. It is recommended that progress on the implementation of the Information Governance Programme be noted.

Reasons

6. To provide the Audit Committee with a status report on the delivery of the Council's Information Governance Programme.

Elizabeth Davison
Group Director of Operations

Lee Downey, Complaints & Information Governance Manager: Extension 5451

Background Papers

S17 Crime and Disorder	This report is for information to members and requires no decision. Therefore there are no issues in relation to Crime and Disorder.
Health and Well Being	This report is for information to members and requires no decision. Therefore there are no issues in relation to Health and Well Being.
Carbon Impact and Climate Change	This report is for information to members and requires no decision. Therefore there are no issues in relation to Carbon Impact and Climate Change.
Diversity	This report is for information to members and requires no decision. Therefore there are no issues in relation to Diversity.
Wards Affected	This report affects all wards equally.
Groups Affected	This report is for information to members and requires no decision. Therefore there is no impact on any particular group.
Budget and Policy Framework	This report does not recommend any changes to the Budget or Policy Framework
Key Decision	This is not a key decision.
Urgent Decision	This is not an Urgent Decision.
Council Plan	There is no specific relevance to the strategy beyond a reflection on the Council's governance arrangements.
Efficiency	Implementation of effective information governance systems and procedures has a positive impact on efficiency.
Impact on Looked After Children and Care Leavers	There is no specific impact on Looked After Children and Care Leavers.

MAIN REPORT

Background

7. Delivery of our information governance programme has provided the assurance required to reduce our information risks to an acceptable level. While that is the case it must be recognised that the data processing activities of the Council continually evolve and must be kept under review. The processes implemented by the Council include review mechanisms to ensure this takes place.

The Microsoft Office 365 Programme

8. The Microsoft Office 365 Programme Team is comprised of the Systems Strategy and Development Manager, the Complaints and Information Governance Manager, the ICT Solutions Architects and the ICT Security and Assurance Team Leader and the End User Engagement Team and reports to SIGG. We have also recently recruited a Systems and Process Officer (SPO) who will assist the above team in driving this forward.
9. Following the successful migration of services who volunteered to migrate to Microsoft 365, we now have a significant number of teams who are fully operational through a Microsoft (MS) Teams interface. However, there remains a significant piece of work to do to and over the coming months we intend to migrate the rest of the Council's services to Microsoft 365. This work will be carried out by the new SPO who will be meeting with services to enable a smooth transfer into the new 365 world.
10. In addition to the services now using MS Teams as their primary working area, there are several Functional and Project Teams being used to conduct business across the Local Authority, including with partners. We have recently decommissioned the secure file sharing system, Egress. We are now providing that functionality via MS Teams, saving on license costs.
11. It is vital all Council services are migrated to Microsoft 365, to enable officers to collaborate remotely, work in innovative ways and utilise the plethora of applications within Microsoft 365 to improve productivity. The need to migrate services to Microsoft 365 is also becoming increasingly necessary from an information security perspective and as we start to explore the potential use of Microsoft Co-pilot, Microsoft's AI tool.

Digital Darlington Strategy and Artificial Intelligence (AI)

12. The Digital Darlington Strategy 2025-30 was approved by Cabinet on 4 March 2025. It is based on four themes, with progress against the strategy regularly reported to the Systems and Information Governance Group. The four themes are:
 - (a) Customer focused;
 - (b) Digital exclusion;
 - (c) Encourage the adoption of digital channels; and
 - (d) Maximising the benefits of existing ICT systems and explore, assess, and implement emerging technologies.
13. The fourth theme includes the assessment and where appropriate implementation of artificial intelligence (AI) to help the council be more efficient and productive. A report on progress to date

was presented to the Economy and Resources Scrutiny Committee on 3 April 2025. A key highlight from the report is the ambition to establish an AI strategy for Darlington Borough Council. Although work to develop the strategy has already started, so have other complementary activities. These include:

- (a) three existing staff started level 4 apprenticeships that focus on AI;
 - (b) work has started to develop governance around the Council's use of AI;
 - (c) the Council is a member of the Local Government Association (LGA) AI Practitioners network, which helps officers develop knowledge;
 - (d) MS Co-pilot is being tested to understand the opportunities it could bring to the Council;
 - (e) A successful application was submitted to be part of a pilot for a Government developed AI tool called MINUTE; and
 - (f) We are awaiting the outcome of an external funding bid to pay for a licence for Magic Notes which is a commercially developed AI tool use across the social care sector.
14. It is understood the Council will need to invest in staff training and development in order for the benefits of AI tools to be maximised once deployed.

ICT work plan

15. SIGG also oversees the Council's ICT work programme, a summary of which is contained in the ICT Strategy - Implementation Progress report to Audit Committee.

Web Team work plan

16. Work on the darlington.gov.uk migration is now entering its final stages and is expected to be completed this summer. This will complete phase 1 of the migration which covers all the public facing features. Phase 2 which looks at the backend features used by the Web Team for maintenance will start in early 2026 once the next long term support version of Umbraco is available to develop against.
17. Work is expected to start on the new Darlington Hippodrome website in the summer once the upgraded darlington.gov.uk website has launched.

Systems and Process Team work plan

18. The Systems and Process Team are the custodians of the large corporate applications that administer the Council's business across Social Care, Education, Customer Services, all online payments, Waste Management, Building Services, Street Cleansing, Planning, Anti-Social Behaviour, Building Control, Trading Standards and Licensing. The work plan covers all major upgrades to these systems (including the intensive testing regime needed to support this).
19. The team are working in Adult Services to align the Transformation Team Programme with the System Programme, a new program of works has been drawn up and we are slowly working through each item. Ongoing work also includes looking at a system to digitalise care records within the reablement team and Holicote. Grants have been received to fund 50% of the cost within the first year. We are also carrying out research into portals which are available to the service to enable more streamlined delivery of services between us and 3rd parties.

20. Children's Services work continues with the main focus still being on Fostering. The team are working closely with the transformation programme manager to implement more streamline services when working with carers. The new payment scheme has been implemented for our foster carers, and the system also underwent a major upgrade in October 2024, which brought in a number of enhancements.
21. The Education system is now part of a much wider programme that will see it wholly replaced in 2025. Stage one of the Education system is now live alongside two out of four portals – Admissions and Establishment. The 3rd portal which will enable parents to apply for an Education Health Care (EHC) Plan for their child was due to soft launch with four school/nurseries in September 2024, however this has been delayed due to a system issue. Stage two was due to commence in 2024, however, this has been rescheduled to 2025 due to System C re-designing their finance module. This is an integral part of this stage and is yet to be released to customers, meaning there could be further delays. This is being monitored and factored in. School admission applications opened for the second time using the new system in September 2024 and saw a large influx of applications on its first day of opening.
22. The development of the Customer Strategy is supported by the Verint work programme (Verint is the Councils CRM System) where forms are developed to allow a seamless digital interaction for the customer and a safe and secure payment option. Additional services will continue to come on board with an online form offering, this is a project where we continue to work with those that want to offer an online form option as well as continuous promotion of existing forms to increase a higher digital presence. Verint underwent a major upgrade in April which has brought us up to date and inline with their upgrade path.
23. Over the coming months, we will be updating our mapping programme and tools, this is a large scale project which will see the Systems Team working with services to ensure that the layers used are updated and migrated over to the new platform successfully prior to us moving over to the pro version of the product.

Information Governance Team Work Plan

24. The Council's Complaints and Information Governance Team/The Data Protection Officer continues to provide advice to officers on a range of data protection and information rights matters and ensures information rights requests are handled in accordance with UK General Data Protection Regulations (GDPR); The Data Protection Act 2018; The Freedom of Information Act 2000; and The Environmental Information Regulations 2014.
25. The team handles all data breaches in accordance with UK GDPR and has been working with Xentrall to run a regular phishing exercises to assess the awareness of users about the dangers of phishing emails and to assess the results to see what, if any, additional actions may be required such as regular reminders or additional training. The team has ran series of communications aimed at raising awareness of phishing scams and how to spot them. More recently the team has worked with Xentrall ICT and the Systems and Process Team to raise awareness of the risk cyber security threats pose and improve the Council's overall preparedness for a cyber attack.
26. Since the last report to Audit Committee the team has also advised on a number of contracts including, Translation Services Agreement and the Section 75 Agreement - North East and North Cumbria ICB; a number of data protection impact assessments (DPIAs) including, North East Childrens Complex Care Diagnostic, Public Health – Stop Smoking Service and Shop Watch What's

App Group; and a number of data sharing agreements including, the VMO2 – Digital Switchover Programme, Choices Together programme - North East Raising Aspiration Partnership (NERAP) and NFI Housing Tenancy Pilot - SIRA Agreement.

Training and awareness

27. The revised table in Appendix 1 shows the position on 14 April 2025 regarding the completion of the mandatory on-line information governance courses for Academy 10 and where applicable, non-IT users. Completion rates of over 95% remains the Council's target and represents an acceptable level of take up which must be achieved. Since last reported over 150 people have moved onto Academy 10, 70 in the last month. This has impacted on our completion rates in the short term, however long term, this should have a positive effect.
28. The overall completion rate for the Employee's Guide to Information Security currently stands at 82%, a reduction from the 89% reported to October's Audit Committee, the reduction in part is associated with the additional Academy 10 users. This course is subject to a two year renewal, the course is not applicable to non-IT users.
29. In relation to the Social Media Module, completion rates currently stand at 78% overall, 88% for Academy 10 users and 37% for non-IT users. This compares to the 78% reported to October's Audit Committee.
30. In relation to the Data Protection Act (DPA) 2018, overall completion rates are at 78%, 86% for Academy 10 users and 43% for non-IT users. This compares to the 76% overall completion rate, reported to April's Audit Committee.
31. While a significant number of officers have undertaken this training previously, following the introduction of two year expiry period to all three modules, they are now required to complete it again. As notifications are sent to those officers who need to refresh their training we anticipate an upturn in completion rates. This is done directly via reminder e-mails sent from Academy 10 and the weekly staff Briefing. With regards to completion rates for non-IT users, the simplified tool box talk style modules are still being used for Social Media and Data Protection. These modules are also subject to the 2 year renewals, but have been designed for managers to be able to deliver the sessions faster, while still imparting all the key information with reinforced learning at the end of the sessions. We will continue to promote the use of Academy 10 in these areas.

Conclusion

32. The Council's information governance programme continues to address emerging issues, support compliance with data protection legislation and manage the Council's information risks to an acceptable level.

Outcome of Consultation

33. No formal consultation was undertaken in production of this report.

15/04/2025	Staff included	% Completion Rate		
		Employee Guide to Information Security not applicable to hard copy	Social Media Version 3 - New in 2020	Data Protection 2018
Chief Executives & Economic Growth Total	76	89	92	92
Darlington Partnership	3	100	100	100
Economic Growth	72	89	92	92
Operations Group Total	450	86	96	96
Housing and Revenues	278	85	95	95
Law & Governance	72	88	97	99
Resources	62	90	97	100
Strategy Performance and Communications	37	89	97	97
People Group Total	753	79	86	83
Adult Social Care	197	83	92	89
Children's Services	300	79	91	84
Commissioning Performance&Transformation	103	92	95	90
Education	196	68	68	68
Public Health	15	87	93	107
Services Group Total	796	83	63	66
Community Safety	42	76	90	93
Community Services Total	606	80	52	56
Community Services	269	80	77	77
Community Services Hard Copy	337	N/A	32	39
Highways & Capital Projects Total	189	91	79	79
Highways & Capital Projects	115	91	90	89
Highways & Capital Projects Hard Copy	74	N/A	61	64
Council Total	2177	82	78	78
Academy 10 Total	1766	82	88	86
Hard Copy Total	411	N/A	37	43

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**AUDIT COMMITTEE
30 APRIL 2025**

AUDIT SERVICES – AUDIT CHARTER

SUMMARY REPORT

Purpose of the Report

1. To present Audit Services' Audit Charter for 2025-26.

Information and Analysis

2. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Council to:
 - “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
3. The Global Standards for Internal Audit have been revised during the previous 12 months. The revised standards are applicable from April 2025. We have undertaken a self-assessment against these revised standards, on the whole the service is compliant with these new standards, however there are some minor adjustments required some of which have been incorporated into the Audit Charter.
4. The standards are now structured around 5 domains: -
 - Domain I – Purpose of Internal Auditing;
 - Domain II – Ethics and Professionalism;
 - Domain III – Governing the Internal Audit Function;
 - Domain IV – Managing the Internal Audit Function;
 - Domain V – Performing Internal Audit Services
5. The main changes made to the charter in recognition of the new standards can be summarised as follows:
 - Para 10 – The standards are explicit around the role the board plays in the direct management of the Head of Internal Audit (HoIA), specifically appraisal, Budget Setting and Remuneration. It has been recognised in the application note produced by Chartered Institute Public Finance & Accountancy (CIPFA) that the role of the board in the public sector differs from that in the private sector, this has been recognised in the charter.
 - Para 11 – The new standards introduce the concept of Root Cause Analysis, as a service we have been working to this standard whenever making recommendations,

the wording in the charter has been undated to explicitly reflect this practice.

- Para's 23 & 24 – The standards place a duty on Internal Audit to work with other assurance providers. Para 23 outlines how we will work with other internal assurance providers and Para 24 outlines how we will work with external assurance providers but explicitly explains some of the limitations of this that exist in the public sector.
6. A requirement of the regulations is for a service to maintain compliance with the standards and to look to improve. To this end a Quality Assurance and Improvement Programme (QAIP) is being devised to reflect the new ways of working.

Recommendation

7. It is recommended that Audit Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

Reason

8. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Assurance Manager

Background Papers

- (i) Audit Risk Assessment Information
- (ii) Corporate and Group Risk Management Information

Andrew Barber : 01642 526176 Internal : 156176

S17 Crime and Disorder	Other than any special investigation work required there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.
Efficiency	There is no specific efficiency impact.

Internal Audit Charter

Introduction

1. This document will outline how the internal audit service to Stockton-on-Tees Borough Council and Darlington Borough Council will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

Purpose of the Service

2. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
3. Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

4. Each authority is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
5. This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

Internal Audit's Responsibilities

6. The service will be delivered in accordance with the purpose outlined above and by ensuring it:
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent)
 - Aligns with the strategies, objectives, and risks of the organisation
 - Is appropriately positioned and adequately resourced
 - Demonstrates quality and continuous improvement
 - Communicates effectively
 - Provides risk-based assurance

- Is insightful, proactive, and future-focussed
 - Promotes organisational improvement
7. The service will ensure it complies with the International Standards for Internal Audit and adopting the Public Sector Internal Audit Standards.
 8. For the purposes of applying these standards “the board” are represented by the Audit Committee through the scheme of delegation in place within each authority. “Senior Management” is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.
 9. The service will report the findings of its work to the board and to senior management a minimum of 3 times per year in line with the Audit Committee schedule. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.
 10. The standards outline the role the board should play in terms of directly managing the resources of the Internal Audit function. The role of the board in the public sector differs from the expectations of the standards as they do not have direct oversight of funding or management of the Chief Audit Executive. This is recognised in the standards and we are required to provide for alternative arrangements, any decisions to be made by the authority that will impact funding and/or management of the Chief Audit Executive (Appointment, remuneration, appraisal) will be undertaken in consultation with the board. In addition the Chief Audit Executive will make the board aware of any concerns they may have in terms of resourcing the function.
 11. Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes. The root cause of a weakness will be identified and recommendations will support addressing the root cause.
 12. Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The “Chief Audit Executive (CAE)” role as specified by the standards is undertaken by the Assurance Manager. An annual report will be produced giving an overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.
 13. Day-to-day line management for the service will be provided by the Assistant Director, Procurement and Governance within the Corporate Services Department of Stockton-

on-Tees Borough Council.

14. In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Assistant Director, Procurement and Governance has operational responsibility, the Assurance Manager has the right to agree the scope of/report findings of this work to any member of senior management.
15. The Assurance Manager also has operational responsibility for Risk Management and Health & Safety in SBC. The impact on actual/perceived independence is limited as these services are congruent with the core principles of Internal Audit and the Assurance Manager must ensure they conform to professional standards however, in order to maintain the actual or perceived independence of the audit function the Audit Manager has the right to agree the scope of/findings of the other functions of the Assurance Manager to any member of senior management.
16. The Assurance Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.
17. The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:
 - Integrity – Selflessness, Honesty, Openness & Accountability
 - Objectivity
 - Competence & Leadership
 - Confidentiality
 - Conflicts of Interest
18. Failure to abide by this code will result in action being taken against individuals through either the Council's disciplinary process, professional disciplinary process or a combination of both.
19. An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.
20. In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

21. Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.
22. The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the audit committee.
23. The service will work closely with internal assurance providers to assess the procedures they have in place in order to establish the reliance that can be placed on those assurances before using it to inform the assurances provided by internal audit.
24. The service will look to liaise with external assurance providers such as External Audit, Ofsted & Care Quality Commission to ensure plans are aligned to avoid duplication and to obtain assurance over processes that would allow the service to place reliance on the work of these organisations. It should however be noted these bodies have their own arrangements and requirements in terms of planning, scope and evidence requirements there are therefore limitations on our ability to co-ordinate effectively with these bodies.

Delivery of the Service

25. An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.
26. Capacity of the team to deliver the planned work will be continually monitored, any concerns over resourcing of the service will be raised with management and Audit Committee.
27. Each control in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and the plan automatically updated if there is any change in risk, the plan will be refreshed daily. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-

Assessment returns and where applicable the schools risk action groups.

28. In order to be able to provide an unqualified opinion sufficient work must have been undertaken, the risk assessment determines the ideal frequency of testing which is adjusted to set a minimum frequency and therefore minimum coverage levels. Completion of the audit plan will be monitored using this minimum frequency, this provides a more effective measure of the work undertaken as it is based on individual control frequencies rather than a simple percentage of the total which could ignore the level of risk completely. The minimum levels of coverage will be regularly monitored and reported.
29. A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.
30. The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

31. A medium strategy will be in place and progress against actions will be reported on a regular basis.
32. A Quality Assurance and Improvement Programme (QAIP) will be developed to reflect the new ways way planning and recording work.
33. The QAIP will detail:
- Performance measures for assessing the service
 - Complaints procedure
 - Process for reviewing compliance with the Standards.
34. Regular reports will be presented to the board on the outcomes of the QAIP

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AUDIT COMMITTEE

30 APRIL 2025

AUDIT SERVICES – ACTIVITY REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with a progress report of activity and proposed activity for the next period.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity.

Recommendations

3. It is recommended that:
 - (a) the activity and results be noted and that the planned work is agreed.
 - (b) Members consider if there are any issues identified that they wish to escalate for further consideration.

Reasons

4. The recommendations are supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Andrew Barber
Assurance Manager

Background Papers

- (i) Internal Audit Charter
- (ii) Departmental Audit Reports

Andrew Barber: Extension 156176

Council Plan	No direct impact but does provide assurances on the delivery of Council Plan objectives.
Addressing inequalities	No specific equality impact however controls to manage equality are included in the programme
Tackling Climate Change	No specific climate change impact however controls to manage climate change are included in the programme
Efficient and effective use of resources	The report provides assurance on the controls in place to deliver the effective use of resources
Health and Wellbeing	There is no specific health and well-being impact.
S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a Key Decision
Urgent Decision	This is not an Urgent Decision
Impact on Looked After Children and Care Leavers	This report has no direct impact on Looked After Children or Care Leavers, however results of testing provide assurance over how the impact is being managed.

MAIN REPORT

Information and Analysis

5. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
6. The report provides members with detailed feedback on the performance of the service and the position in relation to completion of audit work.
7. The first section of the report is to provide members with feedback on the management of the risks on the corporate risk register. Members are reminded that this is not an assessment of the risk itself but an assessment of some of the controls in place to manage the risk.

Overall Position

We are seeing good levels of assurance against each of the risks.

Detailed Commentary

There is nothing to bring to members attention at this time.

Assurance by Risk			Assurance
Rsk Ref	Risk		
SR1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management		100.00
SR10	Planning Performance at risk of Standards Authority intervention		100.00
SR11	VAT partial exemption breach due to exempt VAT being close to the 5% limit		100.00
SR12	Fraud in general		100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments		100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims		100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID.		100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements		83.33
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service		100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service		100.00
SR19	Failure to identify vulnerable schools and broker appropriate support to address needs		100.00
SR20	Increased demand for Adult Services impacts negatively on plans for budget efficiencies		100.00
SR21	Increased demand for Children's Services impacts negatively on budget		100.00
SR22	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage		100.00
SR23	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure		100.00
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge		100.00
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures		100.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.		100.00
SR28	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.		100.00
SR29	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment In Darlington through Empowerment (STRIDE).		100.00
SR3	Business Continuity Plans not in place or tested for key critical services		100.00
SR33	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities		100.00
SR34	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands		100.00
SR35	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn		100.00
SR36	Failure to meet the Council's commitment to becoming Carbon neutral by 2050		100.00
SR38	Reputational and regulatory risk if reinspection not successful		94.62
SR40	Managing the impact of severe weather events		100.00
SR42	Risk of enforcement action from the ICO		87.80
SR43	Risk of new dangerous variant or a significant wave of COVID-19 impact on the Council's ability to provide services as a result of a new dangerous variant or a significant wave of COVID-19 or the activation of UKHSA Contingency plan		100.00
SR44	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. Due to the significant demands on adult social care, the pressures following covid, and the workforce recruitment and retention crisis will impact on the ratings- resulting in an "requiring improvement" outcome.		95.00
SR7	Financial implications of Maintaining and conserving key capital assets within the borough		100.00
SR8	Investment in regeneration projects is not delivered		100.00

- The next section breaks down audit results against a set of key governance processes. We have updated our list of themes primarily to provide a greater degree of clarity and aid understanding.

Overall Position

The majority of themes are showing a positive level of assurance overall, there is one area shown as below 70% and has been reported previously. There are 2 areas currently below 80%. The majority of controls in the High/Very High categories are showing as Green with no Reds.

Detailed Commentary

Application for a Service/Support - Transport policies were found to be out of date impacting on the appeals processes for transport support. Revised policy is at draft stage and out for consultation.

Regulatory Services - There are currently some backlogs being experienced in trading standards and environmental health linked to resourcing issues largely based on recruitment difficulties.

People - Backlogs still exist in dealing with adult social care cases, however this is reducing and being closely monitored with the largest backlog in OT.

New systems are being developed to manage supervisions within Children's services.

There were some minor issues noted relating to employee induction which have been fed into the existing review of the workforce strategy.

We continue to note challenges in meeting the 95% completion rate for mandatory information governance training, however this is offset by good assurance generally in relation to information governance. Some minor issues were also noted with the management of DBS checks.

Results by Theme

Theme	1 Red	2 Amber	3 Green	Total
Application for a Service/Support	1	7	27	35
Application for an Approval/Permission		5	27	32
Assets		3	20	23
Business Continuity		1	26	27
Corporate Governance		3	54	57
Finance	1	2	109	112
ICT		3	25	28
Information Governance	4		37	41
People	7	11	32	50
Performance Management	1		7	8
Procurement/Contracts		2	23	25
Regulatory Services		3	9	12
Total	14	40	396	450

Assurance by Theme

Theme	Assurance
Application for a Service/Support	86.57
Application for an Approval/Permission	93.22
Assets	90.12
Business Continuity	98.65
Corporate Governance	98.56
Finance	98.89
ICT	94.14
Information Governance	91.55
People	70.43
Performance Management	93.75
Procurement/Contracts	95.54
Regulatory Services	81.43
Total	91.68

Overall Results

Status	1 Very Low	2 Low	3 Medium	4 High	5 Very High	Total
1 Red		6	8			14
2 Amber		20	9	8	3	40
3 Green	22	182	114	60	18	396
Total	22	208	131	68	21	450

Results in Period

Status	2 Low	3 Medium	4 High	5 Very High	Total
1 Red	4				4
2 Amber	5	1	5	1	12
3 Green	23	14	14	7	58
Total	32	15	19	8	74

9. The next section looks at the status of recommendations shown by service area.

Overall Position

We continue to see a positive response from managers to the recommendations we make with low numbers of not implemented recommendations when we come to review implementation.

Detailed Commentary

The 4 recommendations that are marked as not implemented, these are longer scale pieces of work and progress is being made albeit a little slower than originally envisioned. I currently do not have any concerns regarding progress towards implementation of these recommendations and fully expect them to be implemented.

Recommendations

Service	Agreed	Draft	Implemented	Not Implemented	Risk Tolerated	Total
	1		2		1	4
Adults	2		4			6
Children's Services	8	1	9		1	19
Community Services	5	5	8			18
Economic Growth	1	3	6		1	11
Education	3					3
Housing & Revenue Services	1	1	5			7
Law & Governance			8		1	9
Public Health		1	1		1	3
Resources		2	2			4
Strategy, Performance & Communications			4		1	5
Transport & Capital Projects	1					1
Xentrall	1	1	4			6
Total	23	14	53		4	96

10. The penultimate section is progress against our balanced scorecard. The key measures in this section are adequate resources and portfolio coverage. In terms of adequate resources we aim to have 15 days capacity spare to deal with any issues that may arise. Portfolio coverage identifies the number of controls that must be tested in the period to maintain adequate coverage, we were on target for the previous period. A staff member has now commenced maternity leave and this accounts for the reduction in productivity levels and reduced spare capacity. The programme of work has been reviewed and it is anticipated there will be no impact in being able to complete sufficient work within DBC to enable the annual opinion to be given.

Stewardship (Coverage)			Stakeholders		
Measure	Target	Actual	Measure	Target	Actual
Adequate Resources	15	0	Reporting	Qtrly	*
Portfolio Coverage	73	74	Fraud Strategy	November	*
Annual Report	June	*	Satisfaction	TBC	*
Activity	Qtrly	*	Recommendation Implementation	TBC	*

Process			People		
Measure	Target	Actual	Measure	Target	Actual
PSIAS Internal Review	March	*	Productivity	75%	69%
PSIAS External Review	March 2023	*	Training	20	*
Staff Meetings	8	11	Code of Conduct	100%	*
Audit Manual Update	March		Appraisals	100%	*

*- to be reported annually

11. The final section of the report (Appendix A) is a full list of controls to be examined in the next period in priority order.
12. I currently do not have any concerns over the resourcing levels of the service or any impairment of the independence of the service to report to members. However it should be noted that we do have a member of staff currently on maternity leave, we have been able to manage the plan over the short-term to manage this. In addition to this we have another member of staff who is due to move onto flexible retirement in April, this has the potential to cause a greater resourcing issue, to manage this we will be looking to bring in an apprentice with the expectation that they will replace this auditor when they do retire.
13. Revised Global Standards for Public Sector Internal Audit – The revised standards become mandatory in April 2025. We have been reviewing the current position against these revised standards and I am pleased to report that overall, the service is in a very strong position to maintain compliance. The main area that required addressing is in

relation to a new requirement to have a strategy in place for the service, whilst we have had a strategy in place this was less formally documented, a fully documented strategy will be presented at this meeting for approval.

Outcome of Consultation

14. There was no formal consultation undertaken in production of this report.

ID	Control	Frequency
30	Petty Cash and Debit Cards are appropriately safeguarded and reconciled.	3
214	Procurement by Legal Services is in line with contract procedure rules and value for money principles.	3
218	Posts requiring a DBS check are identified and requirements are in line with legislation.	3
438	Waste and recycling targets are achieved.	3
471	Achievement of completion rate targets for mandatory on-line information governance training.	3
740	Staff within Highways and Capital projects have completed mandatory information governance training.	3
742	Staff within Children's Services have completed mandatory information governance training.	3
743	Staff within Adults Service have completed mandatory information governance training.	3
744	Staff within Education services have completed mandatory information governance training.	3
745	Staff within Economic Growth have completed mandatory information governance training.	3
795	Staff within Community Services have completed mandatory information governance training.	3
811	Staff within Darlington Partnership have completed mandatory information governance training.	3
36	Children's cases are reviewed to ensure the type of placement remains suitable, with family reunification considered.	6
49	Children's cases are appropriately supervised with regular discussion and appropriate recording.	6
54	Systems are updated with the relevant referral information.	6
56	Agreements for early years provision are in place and being complied with and monitoring visits are being undertaken.	6
78	Focussed financial support to commercial ventures.	6
113	Process Housing Benefit claims.	6
137	Accurate charging and effective income management in relation to civic enforcement activity.	6
145	Public Rights of Way Improvement Plan is in place and progress against this monitored.	6
165	Adult Services has a strategy in place and processes are in place to monitor its delivery.	6
168	Relevant policies and procedures are available and accessible to adult social care staff.	6
172	An up to date strategic plan is in place for the Safeguarding Adults Board and performance is monitored to ensure effective multi agency working.	6
174	Adult Social Care cases are allocated appropriately considering caseloads, complexity, qualification and experience.	6
179	Appropriate service provision has been sourced to meet an Adult Social Care users individual needs.	6
249	Timely and accurate financial assessments are undertaken for service users wishing to take up a service.	6
344	All new employees have been appropriately vetted before being employed.	6
417	Compliance with licence conditions is monitored and appropriate sanctions taken when necessary.	6
526	Changes in circumstances for council tax reduction and housing benefit claimants are processed appropriately.	6
738	Admission and retail income for museums is recorded and received in full.	6
752	The purpose and scope of CCTV coverage in the admin buildings has been appropriately documented and a Privacy Impact Assessment undertaken.	6
46	Business continuity arrangements are in place to continue to deal with children's referrals.	12
68	Clear budget process and timetable is in place which could be followed by team members as and when required.	12
79	Maintain formula and support for funding schools and high needs.	12
86	Undertake forward planning and projections of external factors in respect of income and expenditure and feed into MTFP.	12
114	Fleet vehicles used in the provision of Community (SBC) and Passenger (DBC) Transport services are suitable and meet requirements for servicing and road worthiness.	12

ID	Control	Frequency
184	Accurate charges for contributions to care costs are made to service users.	12
257	Appropriate arrangements are in place to continue managing clients' finances in the event of disruption.	12
285	Progress towards the ICT strategy goals is monitored and reported on.	12
303	An appropriate infrastructure is in place to facilitate the organisation's firewalls.	12
365	Management and oversight of youth offending cases improve outcomes for young people involved in criminal justice system or at risk of becoming involved.	12
396	Accurate and timely returns are provided to support New Homes Bonus and expected allocations have been received.	12
397	Economic Growth Strategy and Economic Growth Plan is monitored and milestones achieved.	12
408	Monitor re-offending rates and target resources towards young people at risk of re-offending.	12
464	Effective commissioning and procurement of public health services and programmes.	12
466	Delivery of the Health and Wellbeing Strategy.	12
536	Breakdowns in placements are handled effectively.	12
25	Procedures are in place to manage the breakdown of a placement.	18
29	Hard copy information held in Children's Residential Homes is appropriately safeguarded.	18
59	Allocation of school budgets in line with funding formula.	18
69	Clear contract procedure rules.	18
89	Development of an appropriate risk assessed H&S audit programme.	18
142	Staff delivering community alarm services hold appropriate qualifications and DBS clearance.	18
152	The authority is committed to reducing its carbon footprint and supporting residents and businesses to reduce theirs.	18
194	Corporate initiatives are in place to help prevent sickness absence.	18
195	Procurement of contracts in place for provision of employee therapy is undertaken in line with contract procedure rules and appropriate monitoring undertaken.	18
220	Appropriate checks have been undertaken prior to placing someone on the Employee Protection Register.	18
261	Sufficient performance information is maintained and is appropriately utilised within the Highways Department.	18
264	The authority has an adequate, appropriate and up to date Highway Infrastructure Asset Management Strategy (HIAMS) in place.	18
292	Appropriate controls are utilised to block or quarantine emails from untrusted sources/networks.	18
353	Oversight and approval of decision to access unregulated or crisis placement provision.	18
368	Ensure the delivery of advice, support and refuge accommodation for victims of domestic abuse.	18
403	Promotion of the borough and town centres as a great place to invest, trade and visit.	18
412	An accurate and complete register of licences issued is maintained.	18
413	Licence applications are subject to appropriate review and approval, evidence of background and eligibility.	18
428	Provide effective short-term support to individuals following a discharge from hospital or to prevent hospital admission.	18
527	Records relating to Council Tax Reduction and Housing Benefit are accurate and up to date.	18
866	There are adequate and appropriate ICT incident response policies/procedures in place.	18
73	Delivery of contract management plans.	24
87	Co-ordinate complaints process.	24
103	Undertake health & safety investigations.	24
191	Environmental Health cases are appropriately allocated to officers.	24
219	Information stored on the employee protection register is accurate, up to date and used appropriately.	24
ID	Control	Frequency
259	Records relating to Environmental Health cases are appropriately recorded and managed.	24
305	Significant changes to the virtualised infrastructure are adequately managed. Allocation of resources in the virtualised environment is adequately and appropriately controlled.	24
319	Standard payroll exception reports are produced for subsequent investigation and clearance.	24
337	Amendments and credits can only occur with the authorisation of the responsible officer for the cost centre whose account was originally credited in error.	24
350	Procedures ensure that the public and staff are aware of the process for making a referral to children's social care.	24
366	Implementation of action plans that promote access to targeted resources, increase access to education, training and employment.	24
378	Pupil premium funding is used effectively.	24
398	Local economic assessment provides an economic baseline to inform decision making.	24
431	Provide a broad selection of accessible leisure and outdoor activities, representing value for money to the public.	24
448	Crematorium operational controls are safe, effective and comply with Cremation Regulations.	24
462	Provision and upkeep of outdoor public seating and street furniture.	24
529	Council Tax/NDR information is accurate and up to date.	24
530	Discounts/Rate Relief is monitored for continued eligibility and there is an appropriate appeals process in place.	24
542	Financial assessments are reviewed and updated for changes in circumstances.	24
576	Regular bank reconciliations are undertaken and are up to date with minimal amounts in suspense.	24

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AUDIT COMMITTEE
30 APRIL 2025

ITEM NO.

AUDIT SERVICES AUDIT WORK 2024/25 – ANNUAL REPORT

SUMMARY REPORT

Purpose of the Report

1. To provide Members with the annual report of the testing undertaken in the previous 12 months in accordance with Audit Services' role and terms of reference.

Summary

2. The report outlines progress to date on audit assignment work, consultancy/contingency activity and performance indicators.
3. In relation to Audit Services' performance a detailed report is provided with all agreed work completed.

Recommendation

4. It is recommended that the annual report of the results of testing during the previous 12 months and the overall opinion statement be noted.

Reasons

5. The recommendation is supported to provide the Audit Committee with evidence to reflect on the Council's governance arrangements.

Andrew Barber
Assurance Manager

Background Papers

- (i) Internal Audit Charter
- (ii) Results of Audit Testing

Andrew Barber: Extension 156176

S17 Crime and Disorder	Other than any special investigation work there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Council Plan	Maintaining an appropriate oversight of risk & controls will help contribute to the delivery of the Council Plan Objectives
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Information and Analysis

6. The report should be considered in the context of fulfilling the function to monitor the adequacy and effectiveness of the Council's internal control environment and the Internal Audit service provided.
7. Appendix 1 provides members with detailed feedback on the performance of the service.
8. As members are aware audit work is planned on a quarterly basis and is effectively a rolling programme of testing. Any work not completed at the end of the quarter is rolled forward into the next quarter. However, to ensure sufficient work is completed to be able to provide an overall opinion on the control environment a minimum level of coverage is identified. This takes into account the priority rating for each test. For the period April 2024 to March 2025 the minimum level of coverage has been calculated at 292, the actual number of controls tested was 309, meaning sufficient work has been completed to enable an overall opinion to be provided.
9. In line with good practice, at an appropriate time, Audit Services follow up with Managers progress on implementation of audit recommendations agreed in audit reports.
10. The Shared Service has also responded to routine requests from Groups for advice and guidance on operational matters.

Outcome of Consultation

11. There was no formal consultation undertaken in production of this report.

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DARLINGTON

Borough Council



Internal Audit Annual Report

Annual Report and Head of Audit Opinion Statement 2024/2025

Section 1 Executive Summary

Background and Overall Opinion Statement

Introduction

Under the Accounts and Audit Regulations 2015, the Council is required to “*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”. For the purposes of the 2024/25 opinion the standards for proper practices for internal audit are laid down in the CIPFA Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (PSIAS).

The relevant body must conduct a review, at least once a year, of the effectiveness of its system of internal control and this is reported in the Annual Governance Statement. The opinions given in this report provides independent and objective assurance on the overall adequacy and effectiveness of the Council’s system of internal control and should be used to inform the preparation of the Annual Governance Statement.

It is management’s responsibility to establish and maintain appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising management that these arrangements are in place and operating properly.

Overall Opinion Statement

As the Head of Internal Audit, I am required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion on:

- The findings from all internal audit work and the subsequent ratings;
- Any follow up exercises undertaken;
- The proportion of Darlington Borough Council’s audit need that has been covered within this period;
- Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction;
- Any limitations which may have been placed on the scope of Internal Audit. (There have been no operational constraints placed upon Internal Audit, apart from agreed budgetary control provisions).

From the testing undertaken by the Internal Audit Section over the course of the year I am satisfied that sufficient assurance work has been undertaken to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Council’s control environment to support the preparation of the Annual Governance Statement.

It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council’s objectives, and detect fraud and other malpractice within a reasonable period of time.

I can confirm there have been no impairments to independence or objectivity of the service.

Conformance with the Public Sector Internal Audit Standards (PSIAs)

Conformance with the Public Sector Internal Audit Standards provides assurance on the adequacy of arrangements for management of the internal audit function and the level of reliance that can be placed on the opinions given in this report.

A review of conformance has been conducted internally, this has confirmed that the service remains compliant with the PSIAs. This view is supported by an external review conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2022 which concluded that the service conforms with the PSIAs. Such an external review is required to be completed at least once every 5 years.

Section 2 Results

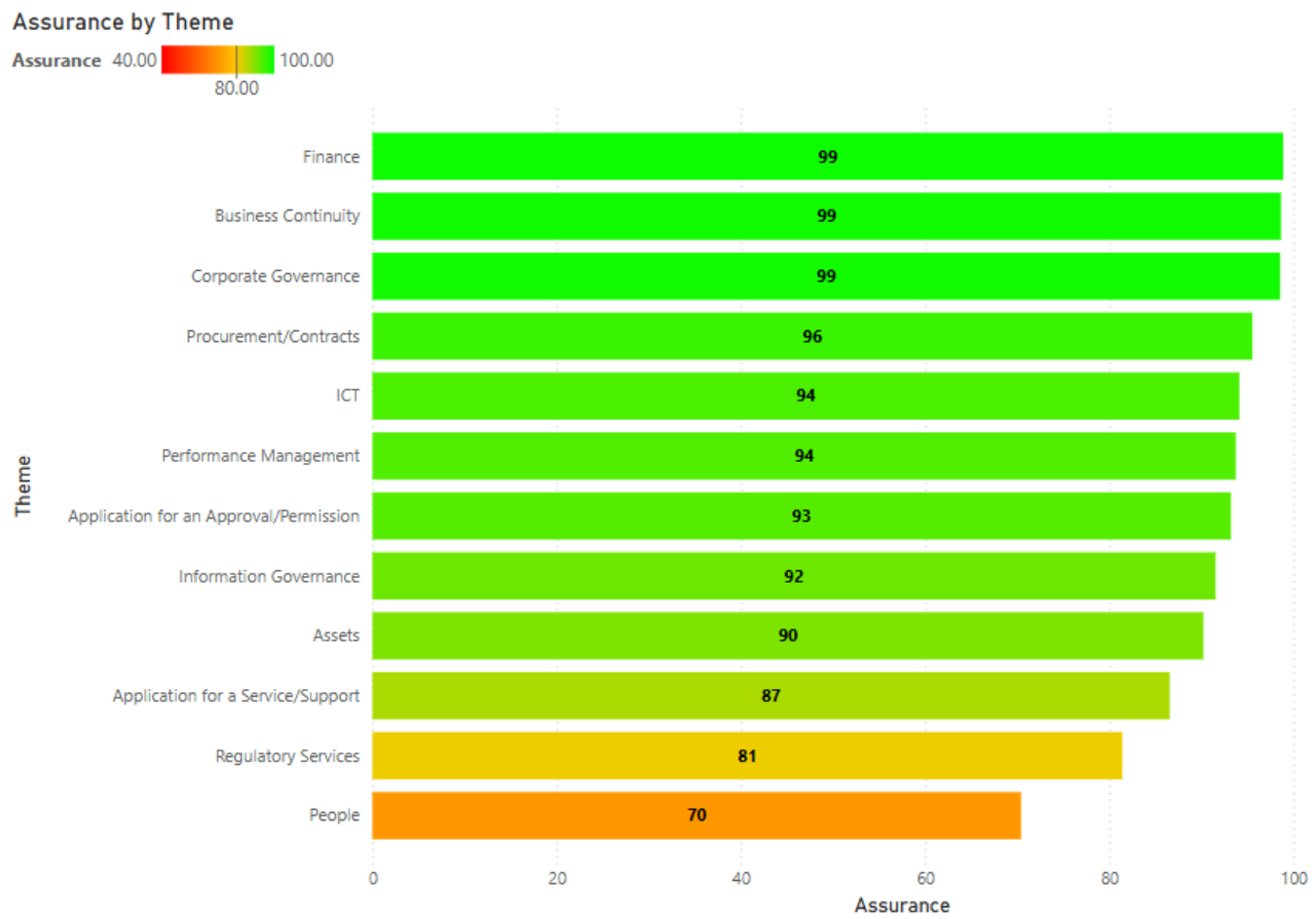
Detailed Results to Support the Opinion Given

Adequate Coverage

In order to be able to provide an opinion sufficient work must have been completed. Frequency of testing is determined by an audit risk assessment, which establishes a minimum frequency of testing. The risk assessment determines that for the period 1 April 2024 to 31 March 2025, a minimum of 292 controls needed to be tested, for the same period 309 controls were tested. Therefore, sufficient work was completed to be able to provide an opinion. The controls specified in the program are regularly reviewed throughout the year to ensure they remain up to date.

Assurance Levels by Theme

Each control is assigned to a governance theme. The level of assurance against each theme is shown below. In general, we have a good level of assurance against each of the themes, for information we set a benchmark of 80 to determine the adequacy of controls. We have 1 category below this value, as reported a number of times during the year, the assurance level in the people category is reduced due to the achievement of targets for mandatory information governance training. Whilst this remains a concern it is somewhat offset by the high levels of assurance in regard to information governance and therefore does not impact on the overall opinion. The other area that is showing a lower level of assurance is regulatory services, this is in large part due to some recruitment difficulties and the requirement for services to prioritise casework over routine checks.



Assurance by Strategic Risk

To support the risk management process controls are assigned to strategic risks in the risk register. The levels of assurance against each risk can be seen below, the results show a good level of assurance.

Assurance by Risk			Assurance
Rsk Ref	Risk		
SR1	Implementation of recommendations from the Capital Process Review is needed to improve effective capital project management		100.00
SR10	Planning Performance at risk of Standards Authority intervention		100.00
SR11	VAT partial exemption breach due to exempt VAT being close to the 5% limit		100.00
SR12	Fraud in general		100.00
SR13	Instability within financial markets adversely impacts on finance costs and investments		100.00
SR14	Financial pressures to the General Fund as a result of increased levels of unemployment and increased Council Tax Support claims		100.00
SR15	Inability to cope with significant increase in homelessness cases following the impact of COVID.		100.00
SR16	Inability to contain placement costs for children looked after due to lack of sufficient in house placements		83.33
SR17	Inability to recruit and retain sufficient qualified suitably experienced social workers in Children's Services impacts on cost and quality of service		100.00
SR18	Inability to recruit and retain sufficient qualified suitably experienced social workers and reablement staff in Adult Services impacts on cost and quality of service		100.00
SR19	Failure to identify vulnerable schools and broker appropriate support to address needs		100.00
SR20	Increased demand for Adult Services impacts negatively on plans for budget efficiencies		100.00
SR21	Increased demand for Children's Services impacts negatively on budget		100.00
SR22	Market (Domiciliary Care Residential Care providers) failure following the Care Act/Living Wage		100.00
SR23	Market (Domiciliary Care Residential Care providers) for Vulnerable Families with Children (including SEND) experiences provider failure		100.00
SR25	The Deprivation of Liberty Safeguards Threshold changes significantly increases the amount of people deprived of their liberty resulting in potential for increased legal challenge		100.00
SR26	Failure to respond appropriately to safeguard vulnerable adults, in line with national legislation and safeguarding adults procedures		100.00
SR27	Failure to respond appropriately to safeguard vulnerable children, in line with national legislation and safeguarding children, thresholds and procedures.		100.00
SR28	Working with other local commissioners to ensure their understanding of their responsibilities within the Childhood pathway.		100.00
SR29	Risk of unsuccessful mobilisation of new service - Support, Recovery and Treatment in Darlington through Empowerment (STRIDE).		100.00
SR3	Business Continuity Plans not in place or tested for key critical services		100.00
SR33	Impact of national cost of living crisis on customers and audiences for Leisure and Cultural facilities		100.00
SR34	Budget & resource implications arising from the ability to progress and complete schemes/projects in the event of further construction inflation, material supply and resource demands		100.00
SR35	Potential impact on public transport networks if commercial services do not recover or continue to receive support from Government and routes are withdrawn		100.00
SR36	Failure to meet the Council's commitment to becoming Carbon neutral by 2050		100.00
SR38	Reputational and regulatory risk if reinspection not successful		94.62
SR40	Managing the impact of severe weather events		100.00
SR42	Risk of enforcement action from the ICO		87.80
SR43	Risk of new dangerous variant or a significant wave of COVID-19 impact on the Council's ability to provide services as a result of a new dangerous variant or a significant wave of COVID-19 or the activation of UKHSA Contingency plan		100.00
SR44	April 2023 will see the implementation of the CQC inspection framework for Adult Social Care. Due to the significant demands on adult social care, the pressures following covid, and the workforce recruitment and retention crisis will impact on the ratings- resulting in an "requiring improvement" outcome.		95.00
SR7	Financial implications of Maintaining and conserving key capital assets within the borough		100.00
SR8	Investment in regeneration projects is not delivered		100.00

Recommendations

The internal audit service supports continuous improvement by making recommendations to improve the controls in place. The majority of recommendations made have either been implemented or are in the process of being implemented which demonstrates a positive contribution to the improvement of controls within the Authority.

Priority	Agreed	Implemented	Not Implemented	Risk Tolerated	Total
High	14	15			29
Low	3	8	1	1	13
Medium	6	30	3	1	40
Total	23	53	4	2	82

Counter Fraud

We consider fraud risk as part of all of our testing, for example when assessing an application that checks that have been made to validate information, which would be included across a number of themes. The results of the NFI exercise completed early 2025 can be summarized as follows:

- 2994 matches returned;
- 802 matches processed;
- 0 frauds or errors identified to date.

Added Value Work

The internal audit service have supported the Council outside of the normal audit process in the following ways:

- Daily checks to support Xentrall to identify any potential duplicate payments, before the payment is made. Feedback from Xentrall is that there are a number of duplicate payments prevented reducing potential losses to the council.
- Completed a full review of petty cash processes providing advice on improvements.

Section 3 Quality, Assurance & Improvement Process (QAIP)

Results of Measures in Place to Continuously Improve the Service

Balanced Scorecard

The service monitors a number of measures designed to demonstrate compliance with the standards and the effectiveness of the service overall. There are no issues to note in any of these measures.

Stewardship (Coverage)		
Measure	Target	Performance
Adequate Resources (Next 3 Months)	15	16
Portfolio Coverage (Period)	292	309
Presentation of Annual Report (Annual)	June	April 2025
Presentation of Activity Report	Qtrly	Qtrly

Stakeholders		
Measure	Target	Performance
Reports Issued	Qtrly	Daily
Fraud Strategy Review	31/03/2025	Sept 2024
Client Satisfaction	TBC	*
Recommendation Implementation	90%	93%

Process		
Measure	Target	Performance
Self assessment against standards (Annual)	March	March 2025
External Assessment (Every 5 Years)	March 2023	January 2023
Staff Meetings Held (Period)	26	38
Up to Date Audit Manual	March 2025	March 2025

People		
Measure	Target	Performance
Productivity (Period)	75%	75%
Training (Per Financial Year)	20	23
Code of Conduct (Annual)	100%	100%
Appraisals (Annual)	100%	100%

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**AUDIT COMMITTEE
30 APRIL 2025**

ITEM NO.

INTERNAL AUDIT STRATEGY 2025-2028

SUMMARY REPORT

Purpose of the Report

1. To advise Members of the Internal Audit Strategy 2025-2028.

Information and Analysis

1. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which requires the Council to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Public Sector Internal Audit Standards

2. The Global Standards for Internal Audit have been revised during the previous 12 months. The revised standards are applicable from April 2025. The standards introduced a requirement to prepare a strategy to develop the Internal Audit Service.
3. The service has had a strategy in place for a number of years and this is recognised in the attached strategy for 2025-2028. The strategy outlines how we will continue to develop the service over the next 3 years:
 - Enhance how we will work with other assurance providers;
 - Enhance our use of data analytics to improve our understanding of risk;
 - Develop some training materials to ensure core skills to manage risks are maintained.

Recommendation

2. It is recommended that :-

- a. That the Audit and Governance Committee approves the Internal Audit Strategy for 2025-2028 (**Appendix A**).

Reason

3. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Assurance Manager

Background Papers

- (i). Global Standards for Internal Audit

Andrew Barber : 01642 526176 Internal : 156176

Council Plan	No direct impact.
Addressing inequalities	No specific equality impact
Tackling Climate Change	No specific climate change impact however controls to manage climate change are included in the programme
Efficient and effective use of resources	The report provides for a strategy to help safeguard resources
Health and Wellbeing	There is no specific health and well-being impact.
S17 Crime and Disorder	The strategy focusses on fraud committed against the council which is considered low risk therefore the impact should be minimal overall.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a Key Decision
Urgent Decision	This is not an Urgent Decision



DARLINGTON

Borough Council



Internal Audit Strategy

2025-2028

Vision and Objectives

Vision

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Objectives

- Effectively evaluate the effectiveness of risk management, control, governance processes and Value for Money.
- Compliance with the Global Internal Audit Standards in the Public Sector

Application

As an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

We will ensure that we work in ways that provide the highest level of assurance possible across all elements of the organisation's operations. We strive to continually improve the level of assurance we can give and this strategy outlines how we will develop the service to achieve this.

Current Position

Whilst the requirement to formally document an Internal Audit Strategy is a new requirement of the Global Internal Audit Standards in the Public Sector, the service has had a strategy in place for a number of years and has been working towards the achievement of these objectives. Progress made to date includes:

- Full re-imagining of the Audit Universe to ensure we understand all of our risks and the controls in place to manage those risks. This also makes the service much more agile, often managers will request advice on a specific element of a system/process, now we have broken the universe down to that level we are able to focus on the specific element of the system managers are interested in rather than reviewing the system as a whole.
- Versatile timely reporting, results are available to managers instantly and we are able to provide assurance at a number of different levels and in a number of different ways to provide managers with a good understanding of their risk environment in a format that is easy to understand and is readily accessible.
- It is now much easier to associate the results of audit testing into other assurance processes as they more closely align with service expectations.
- The audit plan is now a rolling programme of work which is fluid and can respond to changes in the risk environment much more quickly as any changes are on the whole relatively small whereas trying to manage full system audits is more difficult due to their size and resource requirements.

Further Development

We continually strive to enhance the level of assurance that we provide. We recognise that work is being undertaken across the authority that can provide additional assurance and therefore enhance the evidence base used to provide our assurance.

As technology advances it provides an ever increasing set of tools which can be used by auditors which can be used to automate some of the manual testing that takes place and increase sample sizes. This enhances the level of assurance that can be provided in 2 ways, by allowing more time to focus on more complex issues and increase confidence in results through increased sample sizes.

As organisation's evolve taking advantage of newer technologies or through staff changes there is a risk some core skills (Checks and Balances) are lost. Systems and processes have developed over the years and the need for these core skills was more evident in some of these manual processes. As the workforce demography changes over time the number of individuals who grew up using these manual systems and had developed these core skills decreases and there is a risk that these core skills could get lost by an over reliance on technology. These skills are still very much relevant today even if their application changes as systems and processes develop and as a service we need to ensure that individuals have the tools to implement those core skills such as reconciliation or segregation of duties into modern systems.

The strategy is therefore focused on the following areas:

- Assurance Framework/Linkages
- Automation – Risk Assessment & Testing
- Training Delivering Basic Core Skills – Financial Management, Reconciliation

Objective	Action	By Whom	By When
Assurance Framework/Linkages	Work with the services to understand other assurance work that is being undertaken, understand the standards for completing testing to feed into audit reporting and synergies between the teams	Assurance Manager/Risk & Development Officer	31 March 2027
Automation – Risk Assessment & Testing	Work with the services to establish data repositories and understand the uses for the data.	Assurance Manager/Audit Manager	31 March 2026
	Using the data stored in the repositories establish some automated assurance testing, exploring the possibilities A.I. might present.	Assurance Manager/Audit Manager	31 March 2027
	Using the data stored in the repositories establish some automated continuous audit risk assessment, exploring the possibilities A.I. might present.	Assurance Manager/Audit Manager	31 March 2027
Training Delivering Basic Core Skills	Develop a set of training materials that can be used to ensure core skills such as financial management and reconciling systems are maintained.	Audit Manager	31 March 2026

	Identify roles which should have a minimum level of competency in these core skills and ensure training is delivered to those individuals.	Audit Manager	31 March 2026
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AUDIT COMMITTEE
30 APRIL 2025

ACCOUNTING POLICIES TO BE APPLIED TO THE 2024/25 FINANCIAL STATEMENTS

SUMMARY REPORT

Purpose of the Report

1. To update Members on the accounting policies to be applied in the preparation of the 2024/25 Statement of Accounts (SoA).

Summary

2. This report confirms that the majority of the Accounting Policies used in the preparation of the 2023/24 Statement of Accounts still remain appropriate.
3. There is one significant change to the Accounting Policies used with the mandatory implementation of IFRS 16 Leases from 1st April 2024.

Recommendation

4. The Committee reviews the accounting policies and approves their use in the preparation of the 2024/25 financial statements.

Reasons

5. The recommendations are supported to provide the Audit Committee with evidence to reflect on progress in delivery of the 2024/25 Statement of Accounts.

Elizabeth Davison
Executive Director of Resources and Governance

Background Papers

Code of Practice on Local Authority Accounting In the UK 2024/25

Judith Murray: Extension 5401

Council Plan	This report has no particular implications for the Council Plan.
Addressing Inequalities	There is no impact as a result of this report.
Tackling Climate Change	There is no impact as a result of this report.
Efficient and effective use of resources	There is no specific impact as a result of this report.
Health and Wellbeing	There is no impact on Health and Wellbeing.
S17 Crime and Disorder	This report has no implications on crime and disorder.
Wards affected	No specific impact on an individual area as a result of this report.
Groups affected	No specific impact on any groups as a result of this report.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
Impact on Looked After Children and Care Leavers	The report does not impact upon Looked After Children or Care Leavers.

MAIN REPORT

6. The Accounts and Audit Regulations 2015 and the Local Government Act 2003 require that the Statement of Accounts is produced in accordance with proper accounting practices.
7. One of the responsibilities of the Audit Committee is:
8. *'To review the annual statement of accounts prior to approval. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council'.*
9. Accounting policies are defined in the CIPFA Code of Practice for Local Authority Accounting in the UK 2024/25 as the 'specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements'.
10. MHCLG have recently announced that the statutory override for IFRS 9 which was due to end on 31st March 2024 will be extended for legacy investments already in place at the end of the previous financial year (1st April 2024). The override will continue to apply for these investments up to 1st April 2029. The transitional period will provide councils with additional time to manage pooled fund investment strategies.

11. Any new investments taken out after 1st April 2024 will be subject to IFRS 9 compliance and will require fair value movements to be accounted for.
12. The Infrastructure Assets override was introduced in 2022 and set out accounting practices with respect to accounting for infrastructure assets to address ongoing delays in the completion of financial audits. As no longer term solution has yet been agreed there is a risk that the expiration of this override would disrupt the planned audit backstop programme and create additional burden for account preparers. The current override has therefore been extended until 1st April 2029.
13. The full current list of accounting policies the Council proposes to disclose in its Statement of Accounts notes are detailed in **Appendix 1**.

Appendix 1

Statement of Accounting Policies

a) General principles

The Statement of Accounts summarises the Council's transactions for the 2024/25 financial year and its position at the year-end of 31 March 2025. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. The principal accounting policies have been applied consistently throughout the year.

These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a 'going concern' basis, which assumes that the functions of the Council will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which the Council operates. As a result of this, it would not therefore be appropriate for the financial statements to be provided on anything other than a going concern basis.

b) Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de minimis level of £500 for year-end accruals which means that they are not included in the accounting statements.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

The only exceptions to these principles where costs are not apportioned between years are:

- housing rents are shown in whole weeks
- quarterly accounts e.g. electricity are reflected on the basis of four payments per year.

This policy is consistently applied each year and does not materially affect the accounts.

c) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions, including on-call accounts and deposits with Money Market Funds, repayable without penalty on notice of not more than 24 hours held to meet short-term cash commitments. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

d) Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off, and
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance (Minimum Revenue Provision), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

f) Council tax and non-domestic rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the collection fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for council tax and NDR

The council tax and NDR income included in the comprehensive income and expenditure statement (CIES) is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's general fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement.

The balance sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the financing and investment income and expenditure line in the CIES. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

g) Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. flexi time or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the movement in reserves statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the relevant service line or, where applicable, to a corporate service line at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards although it is the Council's policy not to award any such enhancements.

Post-employment benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The NHS Pension Scheme, administered by NHS Pensions
- The Local Government Pensions Scheme, administered by Durham County Council.

The schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Council.

However, the arrangements for the teachers' and the NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the balance sheet. The Peoples Services line in the comprehensive income and expenditure statement is charged with the employer's contributions payable to Teachers' Pensions in the year as is the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on high quality corporate bonds).

- The assets of Durham County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the comprehensive income and expenditure statement to the services for which the employees worked;
 - past service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years, debited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement.
 - net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the comprehensive income and expenditure statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising
 - the return on plan assets - excluding amounts included in net interest on the net defined liability (asset) charged to the pensions reserve as other comprehensive income and expenditure.
 - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the pensions reserve as other comprehensive income and expenditure.
- Contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of

liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

h) Events after the reporting period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the statement of accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period - the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

i) Financial instruments

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest payable

are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the comprehensive income and expenditure statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the comprehensive income and expenditure statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the comprehensive income and expenditure statement, regulations allow the impact on the general fund balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the comprehensive income and expenditure statement to the net charge required against the general fund balance is managed by a transfer to or from the financial instrument adjustment account in the Movement in Reserves statement.

Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost,
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the comprehensive income and expenditure statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the comprehensive income and expenditure statement is the amount receivable for the year in the loan agreement.

The Council has the facility to make loans at less than market rates (soft loans). When soft loans are made, a loss is recorded in the comprehensive income and expenditure statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement at a marginally higher effective rate of interest than the rate receivable from the recipients of the loans, with the difference serving to increase the amortised cost of the loan in the balance sheet. Statutory provisions require that the impact of soft loans on the general fund balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the comprehensive income and expenditure statement to the net gain required against the general fund balance is managed by a transfer to or from the financial instrument adjustment account in the movement in reserves statement.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line of the comprehensive income and expenditure statement.

Expected credit loss model

The Council recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a portfolio of a number of loans to local businesses. It does not have reasonable and supportable information that is available without undue cost or effort to

support the measurement of lifetime losses on an individual instrument basis. It has therefore assessed losses for the portfolio on a collective basis.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Financial assets measured at fair value through profit and loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair Value gains and losses are recognised as they arise in the surplus or deficit on the provision of services.

Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

Any gains or losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The Council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI

on an instrument by instrument basis based on the assessed benefit to the Council from the chosen classification.

As far as Durham Tees Valley Airport shares are concerned the Council has elected to treat them as an equity instrument which is not held for trading and therefore will be utilising the FVOCI treatment.

Instruments entered into before 1st April 2006

The Council has a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that it is shown in contingent liabilities (note 27).

j) Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the comprehensive income and expenditure statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant Income and expenditure (non-ringfenced revenue grants and all capital grants) in the comprehensive income and expenditure statement.

Where capital grants are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance in the movement in reserves statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

k) Heritage Assets

A heritage asset is defined as an asset with 'historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture'.

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except 'where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost.' Valuations may also be made by any method that is appropriate and relevant.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

l) Interests in companies and other entities

The Code of Practice on Local Authority Accounting 2024/25 requires local authorities to produce group accounts to reflect significant activities provided to council taxpayers by other organisations in which an authority has an interest. The Council has interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interest in companies and other entities are recorded as financial assets at cost, less any provision for losses.

m) Inventories and long-term contracts

Inventories are included in the balance sheet at the lower of cost and net realisable value, with the exception of stores held at Allington Way Depot, which are valued at last price paid. This is a departure from the Code of Practice but the effect of the different treatment is not material. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

Long-term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

n) Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the

delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the comprehensive income and expenditure statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the general fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the general fund balance. The gains and losses are therefore reversed out of the general fund balance in the movement in reserves statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

o) Leases

The Council as lessee

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

Initial measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The authority initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the authority's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- fixed payments, including in-substance fixed payments
- variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date
- amounts expected to be payable under a residual value guarantee

- the exercise price under a purchase option that the authority is reasonably certain to exercise
- lease payments in an optional renewal period if the authority is reasonably certain to exercise an extension option
- penalties for early termination of a lease, unless the authority is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent measurement

The right-of-use asset is subsequently measured using the fair value model. The authority considers the cost model to be a reasonable proxy except for:

- assets held under non-commercial leases
- leases where rent reviews do not necessarily reflect market conditions
- leases with terms of more than five years that do not have any provision for rent reviews
- leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried at a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn or nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- there is a change in future lease payments arising from a change in index or rate
- there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee
- the authority changes its assessment of whether it will exercise a purchase, extension or termination option, or
- there is a revised in-substance fixed lease payment.

When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

Low value and short lease exemption

As permitted by the Code, the authority excludes leases:

- for low-value items that cost less than £5,000 when new, provided they are not highly dependent on or integrated with other items, and
- with a term shorter than 12 months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).

Lease expenditure

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straightline depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than 12 months are expensed.

Depreciation and impairments are not charges against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

The Council as lessor

Finance leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the comprehensive income and expenditure statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement).

The gain credited to the comprehensive income and expenditure statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the capital receipts reserve in the movement in reserves statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the deferred capital receipts reserve in the movement in reserves statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the comprehensive income and expenditure statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

p) Overheads and support services

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

q) Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Capital expenditure under £5,000 is classified as de-minimis and is charged to the comprehensive income and expenditure statement. The de-minimis expenditure is financed using existing capital resources or by borrowing, this is posted out of the general fund balance to the capital adjustment account in the movement in reserves statement so there is no impact on the levels of council tax.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the taxation and non-specific grant income line of the comprehensive income and expenditure statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the comprehensive income and expenditure statement, they are reversed out of the general fund balance to the capital adjustment account in the movement in reserves statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost;

- dwellings - current value, determined using the basis of existing use value for social housing (EUV - SH);
- school buildings - current value, but because of their specialised nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- surplus assets - the current value measurement basis is fair value, estimated at highest and best use from a market participant's perspective.
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

For infrastructure assets, the Authority has determined the carrying value of any components replaced during the accounting period to be nil, in accordance with the provisions of the Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2022. Further detail regarding the accounting arrangements for infrastructure assets is provided at Note 16 Property, Plant and Equipment.

Where there is no market-based evidence of current value because of the specialised nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services in the comprehensive income and expenditure statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the comprehensive income and expenditure statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the comprehensive income and expenditure statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the balance sheet, as advised by a suitably qualified officer;
- infrastructure - straight-line allocation over 30 years.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Assets valued higher than £1m that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are host (structure), externals, services and roof. Once separated, depreciation is charged across each components useful life as appropriate.

Revaluations gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the general fund.

Disposals and non-current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the comprehensive income & expenditure statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the comprehensive income and expenditure statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the comprehensive income and expenditure statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are

appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

r) Private finance initiative (PFI) and similar contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the assets used under the contract on its balance sheet as part of property, plant and equipment (unless the PFI scheme is a school that has subsequently transferred to Academy status and then it will be removed from the Council's balance sheet).

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year - debited to the relevant service in the comprehensive income and expenditure statement,
- finance cost - an interest charge of 4.77% on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the comprehensive income and expenditure statement,
- payment towards liability - applied to write down the balance sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

s) Provisions, contingent liabilities and contingent assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For

instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the comprehensive income and expenditure statement when the Council has an obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in note 27 to the accounts.

Contingent assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential although at present the Council doesn't have any contingent assets.

t) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the general fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on provision of services in the

comprehensive income and expenditure statement. The reserve is then transferred back into the general fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

u) Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the comprehensive income and expenditure statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the movement in reserves statement from the general fund balance to the capital adjustment account then reverses out the amounts charged so that there is no impact on the level of council tax.

v) Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue & Customs (HMRC). VAT receivable is excluded from income.

If the Council was unable to recover exempt input tax it would be included as an expense in the comprehensive income and expenditure statement.

w) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority.

The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements. Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

x) Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in highest or best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

y) Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the comprehensive income and expenditure statement or in the notes to the financial statements, depending on how significant the items are to an understanding of the Council's financial performance.

**AUDIT COMMITTEE
30 APRIL 2025**

ITEM NO.

QUARTER 3 PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2024/25

SUMMARY REPORT

Purpose of the Report

1. The CIPFA (Chartered institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on Treasury Management activities and Prudential Indicators at least quarterly. After a soft introduction Local Authorities are expected to fully implement the recommendations from 2024/25. This report, therefore, ensures that the Council is implementing best practice in accordance with the Code.

Summary

2. The Council's Treasury Management Strategy for 2024/25 was approved by Council on 15th February 2024. An updated 2024/25 position was presented as part of the Prudential Indicators and Treasury Management Strategy 2025/26 that was approved by Council on 20th February 2025.
3. This report summarises the Council's borrowing and investment position as at 31st December 2024 and provides the latest update of the Prudential Indicators which are included at Annex 1.

Recommendation

4. It is recommended that:
 - (a) The Audit Committee note the quarter 3 Treasury Management update.
 - (b) The Audit Committee note the Prudential Indicators outlined in Annex 1 (updated where applicable) and note the compliance with the indicators.

Reasons

5. The recommendations are supported by the following reasons :-
 - (a) In order to comply with the CIPFA Code of Practice for Treasury Management.

**Elizabeth Davison
Executive Director - Resources and Governance**

Background Papers

- (i) Prudential Indicators & Treasury Management Strategy 2024/25
- (ii) Prudential Indicators & Treasury Management Strategy 2025/26
- (iii) The Prudential Code for Capital Finance in Local Authorities

Judith Murray: Extension 5204

Council Plan	The Council's treasury management contributes to all priorities outlined within the Council Plan.
Addressing inequalities	This report is providing an update on prudential indicators and the monitoring of the Council's treasury management. There is therefore no impact as a result of this report.
Tackling Climate Change	This report is providing an update on prudential indicators and the monitoring of the Council's treasury management. There is therefore no impact as a result of this report.
Efficient and effective use of resources	This report contains updated information regarding the Council's treasury management position
Health and Wellbeing	This report is providing an update on prudential indicators and the monitoring of treasury management therefore there is no impact as a result of this report.
S17 Crime and Disorder	This report has no implications for crime and disorder
Wards Affected	No specific impact on an individual area as a result of this report
Groups Affected	No specific impact on an individual area as a result of this report
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

6. This quarter 3 review report meets the regulatory framework requirement of Treasury Management and has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. It covers the following:
 - A review of the treasury position as at 31st December 2024.
 - A review of the Council's investment portfolio.
 - A review of the Council's borrowing strategy.
 - A review of the compliance with the Treasury and Prudential Limits.
 - An update of the Prudential Indicators (set out at Annex 1)

Treasury Management Strategy 2024/25

7. The Council's Treasury Management Strategy 2024/25 was approved by Council on 15th February 2024.
8. A mid year Treasury Management monitoring report for 2024/25 was then presented to Audit Committee and approved by Council on 30th January 2025. This provided an update to the original estimated indicators.
9. Only significant movements from the previously reported estimated 2024/25 year end position (included in the Prudential Indicators and Treasury Management Strategy 2025/26 as approved by Council 20th February 2025) will be highlighted in this report, to avoid duplication of reported variances.
10. There are no investment policy changes and the details in this report do not amend the Strategy.

Overall Treasury Position 31st December 2024

11. Table 1 below shows the Council's net treasury investment position for the period ending 31st December 2024 along with the original and updated estimates for 2024/25.

Table 1

	2024/25 Original Estimate	2024/25 Updated Estimate	31/12/24 Actual
	£m	£m	£m
Debt at 31 March	155.946	167.878	161.288
Loans to Joint Ventures	20.115	13.611	6.590
Other Long Term liabilities	5.912	6.912	5.912
Gross Debt	181.973	188.401	173.790
Investments	41.664	41.357	41.357
Net Debt	140.309	147.044	132.433

12. The change in Debt between the original estimate and the updated estimate is due to changes in the profiling of capital expenditure due to slippage of schemes and the need to manage the Council's day to day revenue activities.
13. The change in estimated loans to Joint Ventures is because the Council have now received an updated cashflow schedule and have therefore updated the estimate shown above to reflect this.

Investment Portfolio

14. Table 2 shows the Council's current investments as at 31st December 2024

Table 2

Investments	Value (£m)	Average Interest/Return Rate
	£m	%
Local Authorities	5.000	5.25
Money Market Funds	10.950	4.74
Property Funds	25.407	
Total Investments	41.357	

Table 3

15. The target for our investment returns is to better or at least match a number of external comparators. This performance indicator is known as yield benchmarking.

	Cashflow Investments %
Darlington Borough Council – Actual	5.03
External Comparators	
Sterling Overnight Index Average (SONIA) – to 31 st December	5.01

16. The Council is using its cash balances to delay taking on long-term borrowing whilst interest rates remain high. The effect of this is that there is less cash available for longer term investment and cash balances are held in more liquid funds.

Borrowing Requirement and Debt

17. The Council undertakes long-term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured for the purpose of its asset base.
18. The level of borrowing taken by the Council is determined by the Capital Financing Requirement (CFR) which is the Council's underlying need to borrow for capital expenditure purposes. Borrowing needs to be affordable, sustainable and prudent.
19. Table 4 shows the Council's underlying need to borrow to finance capital expenditure as per the Mid Year Treasury Management report.

Table 4

	2024/25 Original Estimate	2024/25 Updated Estimate
	£m	£m
Prudential Indicator- Capital Financing Requirement		
Opening CFR- Post Audit of Accounts	241.020	233.973
CFR General Fund	148.208	151.373
CFR General Fund PFI/Leasing IFRS	5.912	6.912
CFR – Housing	85.871	76.371
CFR – Loans to Joint Ventures	20.115	13.611
Total Closing CFR	260.106	248.267

20. There has been no change to this position as at 31st December 2024.

Borrowing Portfolio

21. The Council's actual borrowing position as at 31st December 2024 is shown in Table 5 below.

Table 5

	2024/25 Original Estimate	2024/25 Updated Estimate	31/12/24 Actual
	£m	£m	£m
PWLB	108.346	108.208	108.278
Market Loans (Annuity)	0.000	0.000	0.000
Market Loans (Maturity)	4.400	4.400	4.400
Non-Market Loans (Maturity)	35.000	47.000	47.000
Market Loans (LOBO's)	8.200	8.200	8.200
Total Borrowing	155.946	167.808	167.878

22. Three new loans have been taken out since the 2024/25 estimate totalling £12m which are short term loans used to cover short term cash flow fluctuations.

23. New borrowing was undertaken in Quarter 4 to manage the Council's cash flows as funding is expended on day to day revenue activities and the progression of the capital programme, in particular housing schemes. This will increase borrowing levels above the updated estimate position.

24. Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

Compliance with Treasury Policy and Prudential Indicators

25. As part of the Treasury Strategy for 2024/25 the Council set a number of prudential indicators. Compliance against these indicators is regularly monitored and there are no breaches to report.

26. An update of the Prudential Indicators is shown in Annex 1.

Prudential and treasury Indicators for 2024-25 as of 31st December 2024**Treasury Indicators**

Headline Indicators	2024/25 Original Estimate	31/03/25 Updated Estimate
	£m	£m
Authorised limit for external debt	273.111	260.681
Operational boundary for external debt	183.973	190.401
Investments	41.664	41.357
Net borrowing	140.309	132.433

Maturity Structure of Borrowing	2024/25 Original indicator	31/03/25 Updated Indicator
Under 12 months	40%	40%
12 months to 2 years	50%	50%
2 years to 5 years	60%	60%
5 years to 10 years	80%	80%
10 years and above	100%	100%

Upper Limit for principal sums invested	2024/25 Original Indicator	31/03/25 Updated Indicator
Maximum principal sums invested greater than 1 year	£50m	£50m

Prudential Indicators

Headline Indicators	2024/25 Original Estimate	31/03/25 Updated Estimate
	£m	£m
Capital Expenditure	70.088	74.738
Capital Financing Requirement	260.106	248.267
In year borrowing requirement	23.493	5.357
Ratio of Financing Costs to net revenue stream- General Fund	4.16%	4.10%
Ratio of Financing Costs to net revenue stream- Housing Revenue Account (HRA)	12.42%	12.49%

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