

**Darlington Borough
Council**
Audit results report
Year ended 31 March 2020

15 October 2020



Private and Confidential

15 October 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our conclusions in relation to the audit of Darlington Borough Council ("the Council") for 2019/20.

We have substantially completed our audit of the council for the year ended 31 March 2020. We expect to issue an unqualified audit opinion on the financial statements in the form set out in Section 3, by the accounts publication date of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully

Helen Henshaw

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report, which was circulated to councillors on 30 April 2020 and tabled at the 16 September 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with the planning stage at 2% of gross operating expenditure. At year end we updated our planning materiality assessment using the draft financial statements. Based on our materiality measure of 2% of gross expenditure we have updated our overall materiality assessment to £4.6m (Audit Planning Report – £5.4m). This results in updated performance materiality, at 75% of overall materiality, of £3.5m and an updated threshold for reporting misstatements of £0.232m.

Changes in audit team

Helen Henshaw has taken over responsibility from Nicola Wright as the Key Audit Partner for the external audit. Michael Mason has also taken over responsibility from Vusi Maseko as the Audit Manager. There have been no further changes to the team that was reported to you as part of our Audit Planning Report.

Executive Summary

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However until work is complete, further amendments may arise:

- Receipt of signed management representation letter
- Completion of subsequent events review procedures
- Final Manager and Partner review of audit working papers
- Final agreement of the trial balance to the updated accounts
- Completion of legal expense testing
- Our going concern consultation process is still ongoing and we await a response from our internal team

Audit differences

We identified two unadjusted audit differences in the draft financial statements which management have chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £1.68m. We agree with management's assessment that the impact is not material. More detail of this audit difference can be found in Section 4 of this report.

There were some changes made to the draft financial statements and we summarise these in Section 4 of this report.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Audit findings and conclusions: Significant risk - Risk of fraud in revenue and expenditure recognition

- Our work in this area has not identified any material misstatement arising from fraud in revenue and expenditure recognition.

Audit findings and conclusions: Significant risk - Misstatements due to fraud and error

- Our work in this area has not identified any material misstatement arising from fraud or error.



Executive Summary

Areas of audit focus

Audit findings and conclusions: Inherent risk - Valuation of land and buildings and investment properties

- Our audit procedures did not identify any material misstatements arising from the valuation of land and buildings or investment properties.

Audit findings and conclusions: Inherent risk - Pension liability valuation

- Our audit procedures did not identify any material misstatements arising from the pension liability valuation.

Audit findings and conclusions: Inherent risk - Group accounts

- Our audit procedures did not identify any material misstatements arising from group accounting.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified one significant risk related to the Councils financial sustainability, and we have set out the work identified in section 5 of this report. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no matters to report as a result of this work. We will submit the Assurance Statement to the NAO as required.

We have no other matters to report.

Independence

We confirm that we are independent from the Council and have reported all matters as part of our Audit Planning report.

Please refer to Section 8 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Local authorities have a statutory duty to balance their annual budget and are operating in a financially challenged environment with reducing levels of government funding and increasing demand for services. Achievement of budget is critical to minimising the impact and usage of the Council's usable reserves and provides a basis for the following year's budget. Any deficit outturn against the budget is therefore not a desirable outcome for the Council and management, and therefore this desire to achieve budget increases the risk that the financial statements may be materially misstated.

What judgements are we focused on?

The main judgements were focused on were:

- Recognition of grants;
- Improper capitalisation of revenue expenditure; and
- Omission of expenditure in the financial statements

What did we do?

- We tested a samples of capital grants and non-capital grants, and confirmed that they were recognised in accordance with agreed terms and conditions;
- We tested a sample of capital additions and confirmed they met the capitalisation criteria set in the accounting standards;
- Reviewed minutes of Council and Cabinet meetings, as well as attending Audit Committees, to identify any potential accruals or provisions which may have been omitted from the financial statements; and
- We reviewed a sample of transactions recorded in the ledger and payments made from the bank account post year-end and confirmed that the associated income and expenditure has been recorded in the correct period.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition.

However, our work performed on the HRA statement identified a number of errors which cumulatively were above our SAD limit. This resulted in expenditure being overstated by £413k and income being overstated by £406k. Further detail is included in section 4 of the report.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in which management would most easily be able to manipulate accounting records.

What did we do?

- We identified fraud risks during the planning stage of our audit;
- We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- We considered the effectiveness of management's controls designed to address the risk of fraud;
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- We reviewed accounting estimates for evidence of management bias (as noted above relating to revenue and expenditure recognition); and
- We evaluated the business rationale for any significant unusual transactions.

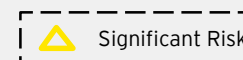
What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We did not identify any issues regarding the appropriateness of journal entries recorded in the general ledger and other adjustments made to the financial statements from our testing performed.





Areas of Audit Focus

Other areas of audit focus



Valuation of land, buildings and investment properties

In our Audit Planning Report, we highlighted the valuation of land, buildings and investment properties as an inherent risk. The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent a significant balance in the Authority's accounts, and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update - Covid-19 related constraints on property valuation: The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on the markets might cause a valuer to conclude that there is material uncertainty. The valuation reports received by the Council from their valuers included a statement on material uncertainties in relation to their valuation. Our work performed did not identify any issues with the valuation of land and buildings or investment property included in the Council's accounts.

We completed the following work on the valuations of land, buildings and investment properties:

- We have considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We have sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We have considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the CIPFA Code for PPE, and annually for IP;
- We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- We have reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- We have considered changes to useful economic lives as a result of the most recent valuation; and
- We have tested accounting entries to ensure they have been correctly processed in the financial statements.

We identified differences in our valuations work relating to two assets (Drinkfield Civic Amenity Site, and Central House Annexe). The valuation of the building element of the Drinkfield Amenity was not included within the fixed asset register or the financial statements resulting in an understatement of £492k. The valuation of Central House Annexe had arithmetic errors, which amounted to an overstatement of £142k. Although this was below our reporting threshold, management chose to correct this and we have therefore included it in our report. We also noted a disclosure issue in the note of the accounts whereby PFI assets had been understated by £252k.

We noted an overstatement of £1.4m relating to the valuation of the Railway Museum within Note 18, Heritage Assets. The overstatement was due to an out of date valuation report being used. We have no other matters to bring to your attention regarding the valuation of land and buildings and investment properties.



Areas of Audit Focus

Other areas of audit focus



Pension Liability Valuation

In our Audit Planning Report, we highlighted that the Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Durham County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020, this totalled £186.74m. The information disclosed is based on the IAS19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs 500 and 540 requires us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

- We have liaised with the auditors of the Durham County Council Pension Fund to obtain assurances over the information supplied to the actuary in relation to Darlington Borough Council;
- We have assessed the work of the Pension Fund actuary (Aon) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by PSAA for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- We have reviewed and tested the accounting entries and disclosures made within the councils financial statements in relation to IAS19.

We have no other matters to bring to your attention relating to the valuation of the pension liability.



Areas of Audit Focus

Other areas of audit focus



Group Accounting

In our Audit Planning Report, we highlighted that Group Accounts was an inherent risk. To assess if group accounting is required, the CIPFA Code requires an assessment of arrangements on a qualitative basis first, and then on a quantitative basis. Management should revisit the Group assessment annually, based on the most up-to-date information, to determine if the Group financial statements require additional entities to be incorporated within the consolidation.

We have:

- Reviewed the Council's Group boundary assessment to ensure that it is complete and all Group entities have been identified;
- Reviewed the Council's assessment of qualitative factors such as whether the Council is exposed to any commercial risk through its involvement with the potential Group entities, in order to ensure the assessment is appropriate; and
- Tested the Council's quantitative assessment by agreeing all values included in the assessment to audited financial statements for each of the potential Group entities.

At the date of writing this report, we have no other matters to bring to your attention relating to group accounts.



Areas of Audit Focus

Other areas of audit focus



Going Concern

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We identified Going Concern as an inherent risk in the Audit Plan following Covid-19. Financial plans for 2020/21 and beyond will need revision for Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Council will not prepare their financial statements on the appropriate basis.

We requested that the Council produce a cash flow forecast extending out until at least November 2021. We reviewed the Council's updated projection as part of our work, including the agreement of some of the projections to external support and challenge of key assumptions made. Having completed our review we agreed with the Council's conclusion that it should have sufficient liquidity to continue to operate as a going concern for at least 12 months after the date of our audit report, as positive cash flows were forecasted throughout the period. We also noted that no additional borrowing above the current level at the end of 2019/20 was required throughout the forecasted period. We have also reviewed the Council's general fund balance to ensure the Council have sufficient reserves to cover the projected deficit as a result of Covid-19.

We agree with management's assessment that the financial statements should be prepared on a going concern basis.



03 Audit Report



Audit Report

Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARLINGTON BOROUGH COUNCIL

Opinion

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement;
- Authority and Group Comprehensive Income and Expenditure Statement;
- Authority and Group Balance Sheet;
- Authority and Group Cash Flow Statement and the related notes 1 to 41;
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 7; and
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Audit Report

Draft audit report

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director, Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director, Resources' has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 14, other than the financial statements and our auditor's report thereon. The Assistant Director, Resources' is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



Audit Report

Draft audit report

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Assistant Director, Resources

As explained more fully in the Statement of the Assistant Director, Resources' Responsibilities set out on pages 15, the Assistant Director, Resources' is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Assistant Director, Resources' is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

Draft audit report

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Darlington Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

Certificate

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

Use of our report

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

Helen Henshaw (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £231,726 which have been identified during the course of our audit

The following differences have been corrected by management:

Note 3b - Analysis of income and expenditure: During our audit work we noted misclassifications of expenditure in note 3b ‘Analysis of income and expenditure’ totalling £6.1m.

Note 16 - Property, Plant and Equipment: We identified differences in our valuations work relating to two assets. For one asset, the building element of the valuation was not included within the fixed asset register or the financial statements resulting in an understatement of £492k. The other asset had arithmetic errors included within the valuation, which amounted to an overstatement of £142k. Although this was below our reporting threshold, management chose to correct this and we have therefore included it in our audit results report. We also noted a disclosure issue in the note of the accounts whereby PFI assets had been understated by £252k.

Note 18 - Heritage Assets: We noted an overstatement of £1.4m relating to the valuation of the Railway Museum within Note 18, Heritage Assets. The overstatement was due to an out of date valuation report being used.

Note 35 - Related Parties: We identified a difference within the related parties note whereby the figure used had not been updated from prior year.

Housing Revenue Account (HRA) Statement: We identified errors within the HRA statement whereby expenditure was overstated by £413k and income was overstated by £406k. This was due to codes being included twice in the workings.



Audit Differences

Summary of Unadjusted differences

The following differences have not been corrected by management:

Balance Sheet - Assets Held For Sale: We understand that the asset held for sale balance relates to a single asset, and this asset does not meet the recognition criteria of an asset held for sale per CIPFA code 4.9.2.14, as it was not being actively marketed as at 31 March 2020. It was also deemed that a sale within 12 months was highly unlikely as there was a lack of retailer interest due to the current economic affect of covid-19. We agree with management's assessment that the impact is not material.

Note 32 - Private Finance Imitative (PFI): During our audit work we liaised with our EY PFI specialist. Our specialist concluded that the PFI Accounting Model used by the Council was not consistent with usual custom and practice that has been adopted across the sector. Based on our experts calculations, this resulted in a £1.4m overstatement of the PFI liability for the year ended 31m March 2020. The overstatement has been increasing over the previous years, and is currently at its maximum, and will fall in future years. Based on this, management have chosen not to adjust for this audit difference. We agree with management's assessment that the impact is not material.

Cash Flow Statement: Per para 3.4.2.72 of CIPFA code, a LA shall consider presenting a note on operating activities if it is relevant to the understanding of the cashflows. We note that this is not included in the Council's accounts, however on discussion with management understand that this will be included next year. This is in accordance with our recommendation. As it is not a requirement of the CIPFA Code, management do not have to adjust the accounts this year.

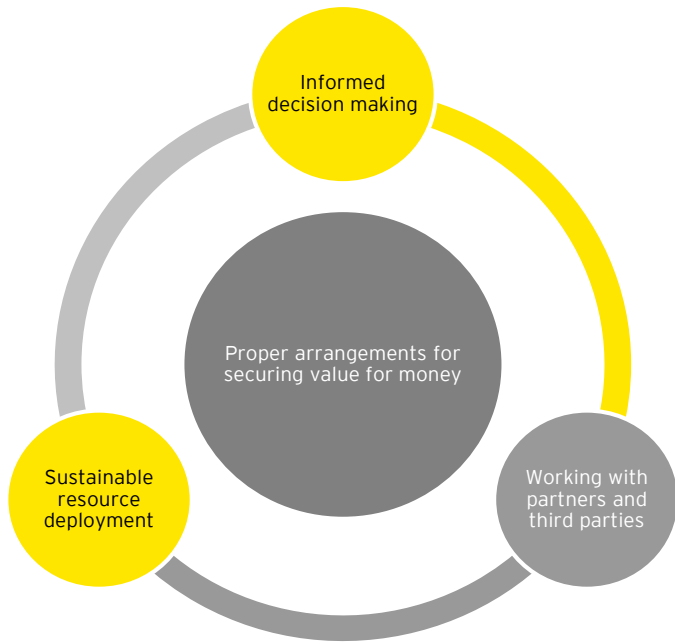


05

Value for Money



Value for Money



Background

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

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Covid-19 has had a significant financial impact on the Council. The Council will need to update and review medium term financial plans to reflect the impact of Covid-19 and ensure actions plans are agreed to ensure financial sustainability is maintained.

Overall conclusion

We identified one significant risk around these arrangements as part of our audit planning work. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial Sustainability	<p>The Council continues to operate in a challenging financial environment. The main risks to the Council’s finances are reductions in central government funding, increased reliance on locally raised taxes, increased budget pressures and increasing demands for services.</p> <p>In February 2020, the Council published its Medium Term Financial Plan (MTFP) for 2020/21 to 2023/24.</p> <p>The plan includes £10.3m of net pressures, which includes delivery of savings totalling £12.9m, over the duration of the plan.</p> <p>There is therefore significant pressure on the Council’s finances over the coming years. We note that the above plan does not incorporate the potential financial impact of Covid-19, due to the timing of its production.</p>	<p>The Council has successfully managed its financial resources during 2019/20, such that they achieved a surplus on provision of services of £17.691 million at the year end. Also, a small contribution (after accounting adjustments) was made to the general fund balance giving a closing balance of £18.368 million. This is considerably above the current risk assessed minimum working balance of £4.350 million.</p> <p>The Council has maintained a positive cash balance throughout the year and has a significant closing year end balance of £16.263 million.</p> <p>The affect of covid-19 on the Council’s 2019/20 accounts was limited with the lockdown being imposed in the last week of the year (23rd March 2020). However, it is clear that the pandemic will have an adverse impact on the council’s finances post 2020/21. We understand that work to establish the overall impact on the council is continuing and a revised Medium-Term Financial Plan (MTFP) is due to be presented to Cabinet in December 20. In the current MTFP the Council’s strategy has been to balance the budget going forward with the use of reserves and we understand that this will continue.</p> <p>We have reviewed information, such as Central Government guidance on cost pressures, to assess the completeness of the assessment for the remaining period. No areas have been identified that management have not taken into account.</p> <p>We have also reviewed and tested management’s detailed cash flow forecast up to 30 November 2021. These forecasts demonstrate the Council will maintain a positive cash balance throughout 2020/21 and we are satisfied the Council have arrangements in place to monitor this going forwards.</p> <p>As a result of the procedures performed we are content that the Council has appropriate arrangements in place to manage its financial resources.</p>



06 Other reporting issues

Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts and published with the financial statements is consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We have no issues to raise.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.



08

Independence

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated April 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 28 October 2020.

We confirm we have not undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd.

As part of our reporting on our independence, we set out below a summary of our fees for the year ended 31 March 2020.

Description	Planned Fee 2019/20 £	Final Fee 2019/20 £
Audit Fee - Code work	71,813	71,813
Scale fee variation	TBC**	TBC**
Total Audit	71,813	TBC
Non-audit work - Housing Benefit Subsidy Claim	10,500	TBC
Non-audit work - Teachers' pension certification work	5,500	TBC
Non-audit work - Homes England grant	4,000	4,000
Non-audit work - Pooling of capital receipts	TBC*	TBC
Total other non-audit services	TBC	TBC
Total fees	TBC	TBC

* Pooling of capital receipts fee still to be agreed for 2019/20.

** The final audit fee for 2019/20 will be subject to additional fees for the work carried out in response to significant risks and change of scope, specifically the work identified in this report covering:

- The VFM significant risk identified;
- Additional procedures required in respect of the impact of Covid-19, particularly in respect of going concern considerations and the impact on asset valuations;
- Additional procedures required as a result of errors found in the draft financial statements presented for audit.

We will discuss these fees with management in the first instance, before agreeing them with you and requesting approval from Public Sector Audit Appointments (PSAA).

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf







09

Appendices





Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - April 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - April 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - October 2020




Appendix A

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - October 2020
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - October 2020
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - October 2020
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report - October 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - October 2020
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report - April 2020</p> <p>Audit Results Report - October 2020</p>

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - October 2020

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Planning Report - April 2020 Audit Results Report - October 2020
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - October 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - October 2020
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - October 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - April 2020 Audit Results Report - October 2020
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Reports

Management representation letter

Management Rep Letter

Ernst and Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Dear Sirs

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Darlington Borough Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Darlington Borough Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Management representation letter

Management Rep Letter

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

Management representation letter

Management Rep Letter

3. We have made available to you all minutes of the meetings of the Group and the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date]
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 31 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

D. Liabilities and Contingencies

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

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.



Appendix B

Management representation letter

Management Rep Letter

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the narrative report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

I. Use of the Work of a Specialist

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

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Elizabeth Davison, Chief Finance Officer



Councillor Lee, Chair of the Audit Committee

Appendix C

Accounting and regulatory update



Future accounting developments

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Darlington 
IFRS 16	<ul style="list-style-type: none">▶ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	<ul style="list-style-type: none">▶ The Authority need to ensure that all lease arrangements entered into are identified and quantified prior to the new implementation date and processes are in place to embed the requirements of the new accounting standard going forward.

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Darlington 
Code of Audit Practice 2020	<ul style="list-style-type: none">▶ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	<ul style="list-style-type: none">▶ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.▶ Further updates will be provided when possible.

Appendix D

Reflections from the Redmond Review

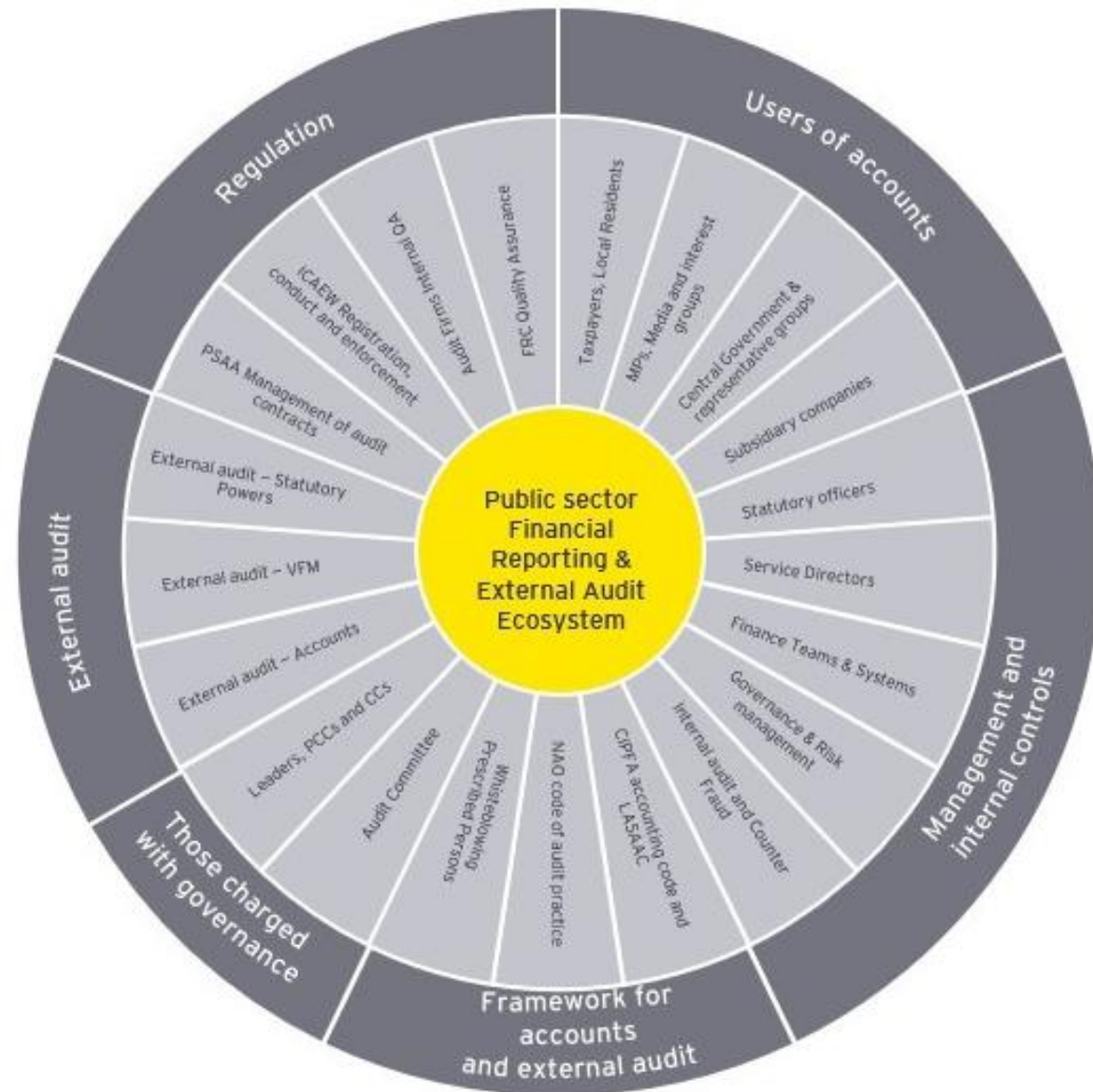
Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.



Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

Reflections from the Redmond Review (continued)

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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