

Darlington Borough Council

Year ended 31 March 2021

April 2022

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better
working world

A nighttime photograph of a street scene. In the foreground, a red and white street cleaner is parked on the left side of the road. Behind it, a white truck is visible. The road has white lane markings and a green-painted area with a yellow 'X' and a right-turn arrow. In the background, there are buildings with lit windows and signs, including one with Japanese characters.

8 April 2022

Audit Committee
Darlington Borough Council
Town Hall
Darlington

Dear Committee Members

We are pleased to attach our Audit Results Report, summarising our findings from the 2020/21 audit. Our audit is substantially complete. However, there is a national issue which will delay the final completion of the audit. This relates to the accounting for infrastructure assets affecting all unsigned 2020/21 audits for local authorities, and is currently being considered by CIPFA (see page 6). We agreed with management that we would circulate this updated audit results report for members of the Audit Committee to confirm that all audit work relating to the Council is completed, other than any additional work that might be required in relation to infrastructure assets and our final completion tasks on the audit. These include updated going concern disclosures, if required, and a review of subsequent events up to the audit reporting date.

Our audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Darlington Borough Council accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

Yours faithfully

Caroline Mulley, Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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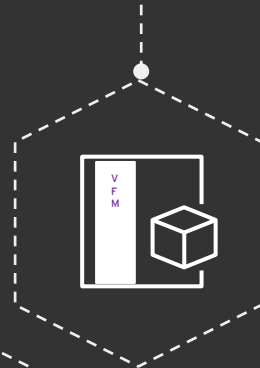
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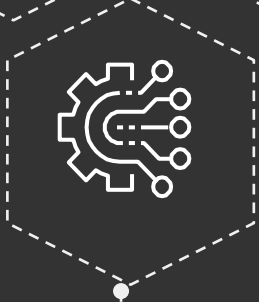
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of the Darlington Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of the Darlington Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of the Darlington Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary



Executive Summary

Scope update

In our Audit Planning Report circulated in July 2021, 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 exception:

- ▶ Changes in materiality: We updated our planning materiality assessment using the draft consolidated financial statements. Based on our materiality measure of gross revenue expenditure, our overall materiality assessment increased to £5.1 million (Audit Planning Report – £4.6 million). This resulted in updated performance materiality, at 75% of overall materiality, of £3.8 million, and an updated threshold for reporting misstatements of £250k. The increase arising from the increase in the value of expenditure in 20/21 compared to 19/20 which was used at planning.
- ▶ Changes in the team: Caroline Mulley has taken over responsibility from Helen Henshaw as the Key Audit Partner for the external audit.

A summary of our approach to the audit of the balance sheet, including any changes to that approach from the prior year audit, is included in Appendix A.

Executive Summary

Status of the audit

Our audit work in respect of the Council's opinion is complete, subject to the completion of our final audit procedures.

However, In March 2022 an issue was raised with the National Audit Office's local government technical network in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulation is continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.

CIPFA/LASAAC has engaged positively with the issue, and are considering a potential Code amendment, although it is clear that the amendment would not go so far as to say that authorities can do nothing. However, this will likely require a consultation period before a conclusion is reached on the way forward for councils and auditors.

We are working with management and with our technical team to assess Darlington's compliance with the Code, as management has a process in place to analyse infrastructure expenditure each year to determine whether it represents enhancement or replacement and to recognise impairment where it is a replacement. Many Councils do not have accounting records to support compliance with the Code, the position of each Council is being reviewed against Code requirements as they stand, without amendment. to assess whether adequate information exists to materially comply with the Code and thereby issue an unqualified opinion, prior to any Code amendment by CIPFA/LASAAC.

The remaining procedures to complete the audit, in addition to any work required around the accounting for infrastructure assets are as follows:

- ▶ Updating our going concern assessment at the point of signing to ensure it covers a period of 12 months from the audit report date;
- ▶ Completing mandatory independence and subsequent events procedures;
- ▶ Final review of our documentation and file completion; and
- ▶ Receipt and review of the signed financial statements and letter of representation.

We will provide a final updated audit results report to Members to confirm the outcome of the issue highlighted above.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

At the time of writing our report, the documentation of our value for money work is in progress - we will provide a further update to the Audit Committee on completion of our work.

Executive Summary

Audit differences - uncorrected misstatements

We identified two unadjusted audit differences in the draft financial statements which management has 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 £624,055. We agree with management's assessment that the impact is not material. More detail of the differences can be found in Section 4 of this report.

Areas of audit focus

In our Audit Planning Report we identified a number of key areas of focus for our audit of the financial report of Darlington Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

| Fraud Risk | Findings & Conclusions |
|--|--|
| Misstatements due to fraud or error | We have not identified any evidence that management has overridden controls in order to prepare fraudulent financial statement balances or postings within the financial statements. |
| Risk of fraud in revenue and expenditure recognition - inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements | <p>We have not identified any material inappropriate recognition of grants within the financial statements. In our sample testing we identified some catch up invoicing re 19/20, the impact is not material.</p> <p>We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure.</p> <p>Our sample testing of additions to Property Plant and Equipment:</p> <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. <p>Our testing of the completeness of liabilities did not identify any omitted items from expenditure.</p> |

Executive Summary

Areas of audit focus (continued)

| Area of audit focus / Inherent risk | Findings & Conclusions |
|---|--|
| Valuation of Land & Buildings and Investment Properties (area of audit focus) | We tested a sample of the Council's assets and did not identify any misstatements. |
| Pension liability valuation (area of audit focus) | We tested the Council's pension liability valuation and assessed the work of the Council's actuary, Aon. We are satisfied that the pension liability and associated balances within the financial statements are not materially misstated. We have undertaken additional audit procedures in responses to the updated ISA540 regarding accounting estimates. |
| Group accounts (area of audit focus) | The Group accounts consolidate the Council's joint ventures with Esh Homes Limited, we did not identify any material misstatements in our testing of the consolidation. |
| Going concern (area of audit focus) | We have reviewed the going concern assessment prepared by management and have not identified any material issues, we note that the assessment will be updated closer to the sign off of the financial statements to ensure that it covers a period of at least 12 months from the date of signing. |

Areas of audit focus

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

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



Executive Summary

Independence

We have no independence issues to highlight.

Please refer to Section 7 for our update on Independence.

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 not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. The 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

We have no other matters to report.



02

Areas of Audit Focus



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) 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 did we do?

In response to this risk, we:

- ▶ Identified fraud risks during the planning stages of our audit;
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determined an appropriate strategy to address those identified risks of fraud;
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing journals at year-end to ensure there are no unexpected or unusual postings. This included searching for inappropriate journals posted by senior officers; journals with certain narrative descriptions which may allude to override; journals that do not balance to nil; and material journals posted at year end. We were satisfied that those journals tested did not contain evidence of management override.
 - Undertaking a detailed review of accounting estimates for evidence of bias (such as the valuation of land, buildings and investment property valuation, IAS 19 pension balances and the calculation for the Expected Credit Loss model of the bad debt impairment (ECL)) and substantively testing unusual or unexpected transactions. No evidence of override was identified, and no unusual transaction have been identified from work completed to date.

What judgements are we focused on?

We focused on aspects of the financial statements which are open to estimation and judgment, which would facilitate management overriding controls:

- ▶ Journal entries subject to specific narrative descriptors, posted at certain times of the financial year or by certain individuals, and journals which exceed certain values;
- ▶ Material accounting estimates, such as the valuation of property, plant and equipment and investment property IAS 19 pensions and the ECL; and
- ▶ Unusual transactions anywhere in the financial statements.

What are our conclusions?

Our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden control.

We have completed our journals testing. We are satisfied that journal entries had been posted properly and for genuine business reasons.

We have reviewed material estimates. Our work in these areas resulted in amendment to the financial statements, but no indication of fraud was identified.

There were no unusual transactions identified.



Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - inappropriate recognition of grants with terms and conditions attached, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements

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.

We believe the risk of manipulation is most likely to manifest in the incorrect capitalisation of revenue expenditure through either inappropriate recognition of grants with terms and conditions, inappropriate capitalisation of revenue expenditure and omission of expenditure from the financial statements.

What judgements are we focused on?

We focused on the Council's judgements in recognising grants with terms and conditions, we also tested new Covid-19 grant income to determine whether these had been appropriately accounted for as principal or agent.

We focused on the Council's judgements to classify expenditure as either revenue or capital in nature. We tested a sample of items to confirm that the Council's judgement was supported by sufficient evidence and was genuinely capital in nature.

What did we do?

In response to this risk, we:

- Tested a sample of grant income to supporting evidence and understood the related terms and conditions to confirm that recognition in 20/21 financial statements was appropriate. In particular for the new Covid-19 grants we tested whether these had been appropriately reflected as principal or agent transactions, depending on the terms attached.
- Tested a sample of PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. We also agreed the transaction was supported by sufficient evidence to verify its value and the period it related to. We note that no testing was carried out on IP additions as the value was immaterial.
- Tested a sample of REFCUS, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also considered whether these items were supported by sufficient evidence to verify the value and period it related to.
- Tested samples of expenditure transactions post year end to consider whether appropriate liabilities had been recorded for expenditure settled post year end relating to 20/21.



Areas of Audit Focus

Significant risk

What are our conclusions?

The results of testing of grant income did not identify any material issues, we note that:

- Grant income -credit to services within our sample we noted £38,100 being invoicing re 19/20, this was in part due to delays in completion of assessments for respite care income. These differences arose within our representative statistical sampling and therefore are projected over the remaining population giving a projected difference of £740,000 which is above our group reporting threshold and so included on our summary of audit differences, however it is not material to total income.
- Our testing of Covid-19 grant income did not identify any material issues.

Our sample testing of additions to Property Plant and Equipment:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our testing of the completeness of liabilities did not identify any omitted items from expenditure.



Areas of Audit Focus

Our response to areas of audit focus



Further details on procedures/work performed

Valuation of Land and Buildings

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 significant balances in the Council'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.

We completed the following procedures to address the risk:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a five year rolling programme as required by the Code for PPE and annually for IP.
- ▶ Considered whether there were any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Considered any changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements,

We also considered the impact of Covid-19 on the usage of assets as to whether there were any indicators of impairment. We noted that the valuation of car parks in particular has been reduced to £nil reflecting the low levels of utilisation in the year and since the year end compared to expenditure related to those assets.

We did not identify any material misstatements in the values.



Areas of Audit Focus

Our response to areas of audit focus



Further details on procedures/work performed

Pension liability valuation

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.

The information disclosed is based on the IAS 19 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 (UK) 500 and 540 require us to undertake procedures on the use of management specialists and the assumptions underlying fair value estimates.

We reviewed the Council's IAS 19 reports which were used to prepare the financial statements. We have assessed the work of the actuary (Aon), including the assumptions they have used, by relying on the work of PwC - consulting actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.

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's participation in the scheme.

We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

There are no other matters to bring to your attention relating to the valuation of the pension liability.



Areas of Audit Focus

Our response to areas of audit focus



Further details on procedures/work performed

Group accounts

The CIPFA Code requires an assessment of arrangements on a qualitative basis first, and then on a quantitative basis. Management is required to 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.

As in prior years, the Council produced Group accounts for 20/21, in order to include the joint venture arrangements with Esh Homes Limited. The Council owns 50% of the share capital of the joint ventures in place.

During our audit work, 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.

We have not identified any material matters to report in respect of the Group accounts and inclusion of the Joint Ventures with Esh Homes Limited.



Areas of Audit Focus

Our response to areas of audit focus



Further details on procedures/work performed

Going Concern Compliance with ISA 570

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.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

In addition, the Covid-19 pandemic has created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources.

Our work included discussion and review of the Council's updated medium term financial plans and cash flow forecasts, which form the basis of the Council's consideration of the use of the going concern assumption.

We considered whether the Council's disclosures for events after the balance sheet date were appropriate and challenged whether the disclosure in the draft financial statements was required.

At the time of writing the report we have no matters to report in respect of going concern, we note that once the final audit matters are resolved, the going concern assessment will be extended to cover a period of at least 12 months from the date of approval of the financial statements.



03 Audit Report



Audit Report

Audit report

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

Our opinion on the financial statements

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 2021 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, the related notes 1 to 41; the Housing Revenue Account Income and Expenditure Statement, the Movement on the HRA Statement and the related notes 1 to 7; and the 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 2020/21.

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 2021 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 2020/21.

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 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's ability to continue as a going concern.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Accounts for the year 2020/21, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information contained within the Accounts for the year 2020/21 .

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.

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 course of 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 themselves. 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.

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 Authority;

- ▶ 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;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

Responsibility of the Director of Resources

As explained more fully in the Statement of Responsibilities set out on page 18, the Director of Resources is responsible for the preparation of the Accounts for the year 2020/21, 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Audit Report

Our opinion on the financial statements

In preparing the financial statements, the Director of Resources is responsible for assessing the Group and 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 Group or 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Education Act 2002 and School Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948)
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Darlington Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit



Audit Report

Our opinion on the financial statements

and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance.

We corroborated this through our reading of the Authority's committee minutes and through enquiry of employees to confirm Authority policies. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified misstatements due to fraud and error and a risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure to be our fraud risks.

- ▶ To address our fraud risk around misstatements due to fraud and error, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.
- ▶ To address our fraud risk of risk of fraud in revenue and expenditure recognition through inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

▶ To address our fraud risk of risk of fraud in revenue and expenditure recognition through inappropriate grant recognition we tested grant income to terms and conditions to ensure the recognition criteria were properly met.

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.

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 reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Darlington Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Darlington Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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

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.



Audit Report

Our opinion on the financial statements

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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts 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 Darlington Borough Council and Darlington Borough Council members as a body, for our audit work, for this report, or for the opinions we have formed.

Caroline Mulley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne



04 Audit Differences





Audit Differences

Summary of unadjusted differences

In addition we highlight the following known and projected misstatements to the financial statements and/or disclosures which were not corrected by management. We note that we do not expect extrapolated misstatements to be corrected. However, we request that the uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

| | Assets Current | Assets Non-current | Liabilities Current | Liabilities Non-current | Reserves | CIES |
|--|--------------------|--------------------|---------------------|-------------------------|--------------------|--------------------------------------|
| | Debit/ (Credit) | Debit/ (Credit) | Debit/ (Credit) | Debit/ (Credit) | Debit/ (Credit) | Debit/ (Credit) Current period |
| Uncorrected misstatements | | | | | | |
| Known differences: | | | | | | |
| ▶ PFI liability* | | | | (1,257,000) | 1,373,000 | (116,000) |
| Projected differences: | | | | | | |
| ▶ 19/20 income recorded in 20/21 | | | | | | 740,055 |
| Total of current year misstatements | - | - | - | (1,257,000) | 1,373,000 | 624,055 |
| Effect of turnaround items | | | | | | - |
| Total | | | | | | 624,055 |

* This matter has been reported in prior years and the above reflects the current year unwind.

During our testing, management corrected a small number of items relating to disclosures which are not material.

At the time of writing this report, we are working with management on the cashflow statement to ensure there is supporting calculations for all line items.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

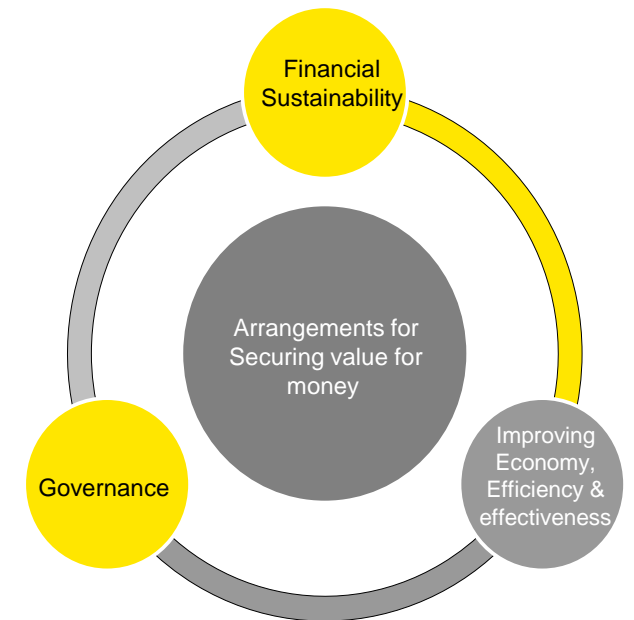
Under the 2020 Code of Audit Practice (the Code), issued by the National Audit Office, we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. However, there is no longer overall evaluation criterion which we need to conclude upon. Instead the Code requires the auditor to design their work to provide them with sufficient assurance to enable reporting to the Council in a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of our VFM work

At the time of writing our report, the documentation of our value for money work is in progress - we will provide a further update to the Audit Committee on completion of our work.





06 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 2020/21 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 2020/21 and published with the financial statements was 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 (NAO) on your Whole of Government Accounts (WGA) return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. The 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

Other reporting issues

Other reporting issues

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 Council 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.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.



07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees due for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted. We confirm that we have not undertaken non-audit work other than the certification of the Council's Housing Benefit Claim, Teachers Pension and Pooling return.

EY Transparency Report 2021

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 2021:

[EY UK 2021 Transparency Report | EY UK](#)

Fees

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the Department for Levelling Up, Housing and Communities.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

| | Planned fee 2020/21 | Final Proposed fee 2019/20 |
|---|------------------------|-------------------------------------|
| | £ | £ |
| PSAA Scale Fee | 71,813 | 71,813 |
| Rebasing of scale fee to deliver audit to meet regulatory requirements (Note 1) | 25,087 | 20,276 |
| Covid-19 impact | TBC | 11,373 |
| Revisions (Revised auditing standards ISA540 and ISA 570) | TBC | N/A |
| Revision (New Code of Audit Practice/VfM requirements) | TBC | N/A |
| Total audit fee | TBC | 103,462 |
| Non-audit work - Housing benefits certification work | 10,500 | 10,500 |
| Non-audit work - Teachers' pension certification work | 5,500 | 5,500 |
| Non-audit work - Home England grant | N/A | 4,000 |
| Non-audit work - Pooling of capital receipts | 5,500 | 5,000 |
| Total proposed fees | TBC | 123,214 |

The table sets out our fees for 2019/20 and 2020/21. All other fees will be discussed with officers and the PSAA. Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Director of Resources following the completion of the audit.

(1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £25,087. PSAA has determined the total fee variation across both elements for 2019/20 as £20,276. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

(2) In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).

(3) The additional fee for 2020/21 will be discussed with officers before being put forward for PSAA approval, following the completion of our audit.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

08 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

There were no significant changes to our audit approach apart from the additional work we were required to undertake to address the requirements of the new auditing standard on accounting estimates. This primarily impacted our audit procedures on:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP)
- Pension liability and asset valuation.

Appendix B





Summary of communications

| Date  | Nature  | Summary  |
|--|--|---|
| July 2021 | Audit planning report | Audit planning report was circulated documenting the key risks and areas of audit focus |
| Twice per week through audit visit | Meeting | The key members of the audit team met with the Finance manager and various members of management's team at least twice weekly to discuss a log of queries and issues. This included detailed discussion of testing items, progress and issued being identified. |
| Ad hoc through completion of audit | Meeting | We met with key members of the finance team, including the Group Director of Operations and the Finance Manager, while final audit procedures were being completed. |
| April 2022 | Audit Results Report | Audit Results Report was circulated documenting the completed audit with the exception of the infrastructure issue noted on page 6. |

Appendix C

Required communications with the Audit Committee




There are certain communications that we must provide to the those charged with governance of UK entities. 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 (circulated in July 2021) |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Audit planning report (circulated in July 2021) |
| 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 (April 2022) |





Appendix C

| | | Our Reporting to you |
|--------------------------|--|--|
| Required communications | What is reported? | When and where |
| Public Interest Entities | <p>For the audits of financial statements of public interest entities our written communications to the audit committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant | <p>Audit planning report (circulated in July 2021) and Audit results report (April 2022)</p> |





Appendix C

| | |  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 related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements | Audit results report (April 2022) |
| Misstatements | <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ 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 (April 2022) |
| 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 (April 2022) |





Appendix C

| | |  Our Reporting to you |
|--------------------------------|---|---|
| Required communications |  What is reported? |   When and where |
| 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 entity ▶ 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 entity, 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 (April 2022) |
| Related parties | <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity | Audit results report (April 2022) |
| 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 | Audit planning report (circulated in July 2021) and Audit results report (April 2022) |

Appendix C

| | |  Our Reporting to you |
|---------------------------------------|---|--|
| Required communications |  What is reported? |   When and where |
| | <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| 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. | Audit results report (April 2022) |
| 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 committee may be aware of | Audit results report (April 2022) |

Appendix C

| | |  Our Reporting to you |
|--|--|--|
| Required communications |  What is reported? |   When and where |
| 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 (April 2022) |
| 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 (circulated in July 2021) and Audit results report (April 2022) |
| 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 (April 2022) |
| 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 (April 2022) |
| 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 (April 2022) |

Management representation letter

Management Representation Letter

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

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 2021. 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 2021 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 2020/21.

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 2020/21.

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 2020/21 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 2020/21 for the Group and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the 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.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit

Management representation letter

Management Representation Letter

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.

3. We have made available to you all minutes of the meetings of the Group and Council committees, including the Economy and Resources Scrutiny Committee and the Audit Committee (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]

Management representation letter

Management Representation Letter

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 methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 the date of our last management representation letter 18 November 2020 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 Note 45 to the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 41a) to the consolidated and parent entity financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. 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

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in the consolidated and Council financial statements or notes thereto.

G. Group audits

1. Necessary adjustments have been made to eliminate all material intra-group transactions amongst Council, subsidiary undertakings and associated undertakings.

H. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Accounts for the year 2020/21.
2. We confirm that the content contained within the other information is consistent with the financial statements.

I. Ownership of Assets

1. The Group and Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

J Reserves

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

K. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the consolidated and Council financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the consolidated and Council financial statements).
2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance, except as follows:
(1) Matters of routine, normal, recurring nature (e.g., examinations by bank and insurance examiners, examinations by taxing authorities), none of which involves any allegations of noncompliance with laws or regulations that should be considered for disclosure in the consolidated and Council financial statements or as a basis for recording a loss contingency.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land, buildings and investment properties and IAS19 pension liabilities have adequately considered the

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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.

M Estimates

Valuation of Land, Buildings and Investment Properties Estimate

1. We confirm that the significant judgments made in making the valuation of land, buildings and investment properties estimate have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the valuation of land, buildings and investment properties estimate.
3. We confirm that the significant assumptions used in making the valuation of Land, buildings and investment properties estimate appropriately reflect our intent and ability to provide an accurate valuation of the Group and Council's land, buildings and investment properties on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of land, buildings and investment properties.

IAS 19 Pensions Liability Estimate

6. We confirm that the significant judgments made in making the IAS 19 pensions liability estimate have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
7. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the IAS 19 Pensions Liability estimate.
8. We confirm that the significant assumptions used in making the IAS 19 pensions liability estimate appropriately reflect our intent and ability to provide an accurate valuation of the Group and Council's pensions liability.
9. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
10. We confirm that appropriate specialized skills or expertise has been applied in making the IAS 19 pensions liability.

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11. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

N. 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,

(Group Director of Operations)

(Chair of the Audit Committee)

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