Darlington Borough Council
Audit results report

Year ended 31 March 2022

8 April 2024

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8 April 2024

Audit Committee
Darlington Borough Council
Town Hall
Darlington

Dear Committee Members

2021/22 Audit results report

As we work towards clearing the backlog of local government audits by the proposed backstop date of 30 September 2024, we are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 8 April 2024 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Darlington Borough Council's 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. We have also included an update on our work on value for money arrangements.

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.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 8 April 2024.

Yours faithfully

Caroline Mulley

Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

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.psaa.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 July 2021)" 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 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 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 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 September 2022 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 exception:

Materiality

In the 2021/22 audit planning report, we've included separate materiality figures for the Group and the Single Entity (the Council itself). We have revisited the materiality figures and determined that the group materiality figures would be appropriate for our testing for the following reasons:

- Gross expenditure (basis of planning materiality) is the same amount in the group and single entity financial statements.
- All amounts on the MIRS, CIES, Balance Sheet and Cash Flow Statement are the same on the single entity and group accounts, apart from the following which are also specific to the JVs and have been considered in our audit procedures on Group accounting:
  - Group MIRS: Authority's share of the reserves of joint ventures amounting to £1.09m.
  - Other comprehensive income: JV accounted for on an equity basis amounting to £0.76m.
  - Balance sheet: Investment in JVs (assets) and Usuable Reserves – Group Accounts both amounting to £1.09m.
- Substantially all of the account balances and classes of transactions are attributable to the single entity and audited centrally, therefore, using group materiality figures is appropriate.

As part of our concluding processes, we consider the impact of the revised financial statements on our materiality figures. Based on the revised gross expenditure value, now £255.2m, our updated overall materiality figure decreased to £5.1m (audit planning report - £5.3m). This resulted in updated performance materiality, at 75% of overall materiality, of £3.8 million, and an updated threshold for reporting misstatements of £255k.

Pensions Liability

The 2022 triennial actuarial valuation of pension liabilities has since become available following the circulation of the 2021/22 audit planning report (previous valuation being 2019). As the 2021/22 audit was still open, we were required to consider this work as part of our audit of 2021/22 financial statements, as the IAS19 disclosures in the financial statements utilise membership data from the previous triennial valuation (2019) and a material movement in membership data could give rise to a material change required to the IAS19 figures presented. The IAS19 figures have been recalculated for 2021/22 and did show a material change in membership and the IAS19 figures were therefore re-calculated and included in the revised financial statements. We performed additional audit procedures to confirm the updated valuation of the pension liability.

Infrastructure Assets

In our audit planning report, we brought to the attention of the Audit Committee, the national issue pertaining to local authorities not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned (replaced assets would still remain on the asset register) which could result in a material misstatement in the financial statements. As we were awaiting further sector guidance around this issue, we indicated that there may be a risk attached to the valuation of Infrastructure Assets. We have since received this guidance and have attached an inherent risk to the existence of infrastructure assets. We believe that the existence assertion was relevant as the issue pertained to failing to recognise disposals, which would mean that the gross carrying amount of infrastructure assets may include assets that have been replaced (no longer exists). Management has revised the presentation in line with the new CIPFA guidance. We have conducted audit procedures in line with the published guidance.

A full update is provided further in this report.

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 opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- Receipt and review of the amended financial statements
- Receipt and review of the signed management representation letter
- Completion of mandatory independence and subsequent events review up to the date of the audit report
- Receipt and review of the signed financial statements

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

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 on our value for money conclusion.

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; and
- 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

In the Audit Plan circulated to the Audit Committee, we reported that our value for money (VFM) risk assessment was ongoing, therefore had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO’s 2020 Code.

We have now substantially completed our planned VFM procedures and have no matters to report by exception in the auditor’s report (see Section 03). We plan to issue the VFM commentary by the end of April 2024 as part of issuing the Auditor’s Annual Report.

Executive Summary

Audit differences

Since the circulation of our 2021/22 audit planning report in September 2022, there have been a few issues which have delayed the completion of the audit to 24 months after the 31 March 2022 year end. These include the delay in completion of the 2020/21 audit which was mainly due to two national issues, namely accounting for infrastructure assets and the impact of the 2021-22 triennial valuation of pension funds for earlier audits which were still open. The 2020/21 audit was completed on 25 July 2023. This delay meant that the audit of the 2021/22 accounts started late in August 2023. Other reasons, although not an exhaustive list, include:

- Changes to the Council's finance team – The draft financial statements for the year ended 31 March 2022 were prepared and published by the previous team in July 2022. As the audit has been ongoing, almost 24 months after the financial year end, there have been changes to the council's finance team for reasons such as retirement, job progression and new appointments. Due to the delay in starting the audit, this has resulted in difficulties in the new finance team trying to source the data that was used to prepare the draft financial statements.
- Delays in retrieval of supporting evidence – As highlighted above, due to the delay in starting the 2021/22 audit, the audit has been ongoing for an elongated period. Due to changes in the finance team and the Council's storage policy, where documents are filed at a storage facility, in some instances, there were difficulties in retrieving certain sufficient appropriate supporting evidence easily and timely for submission to the audit team, as retrieving stored information involves costs as well as capacity of council staff. Due to the backstop proposals deadline, to draw a line on the 2021/22 accounts, the Council has made a decision not to retrieve all requested information deemed not material to the accounts.
- Backstop date – As highlighted by the Department for Levelling Up, Housing and Communities (DLUHC), the backlog in local government audits has increased drastically. In July 2023, the Minister for Local Government published a Cross-System Statement to Parliament setting out proposals to tackle this backlog. To clear the backlog of historical accounts and 'reset' the system, DLUHC proposes putting a date in law (the "backstop date") – 30 September 2024 – by which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23. The council has taken this backstop date into consideration when responding to audit findings.

For the reasons above, we have noted a larger number of misstatements in the 2021/22 financial year. We have categorised these misstatements into 4 categories contained in section 4 of this report. These categories include adjusted differences (these have an impact on the financial statements and may result in changes in the surplus and/or position on the balance sheet), adjusted classification differences (these may have an impact on the Statement of Comprehensive Income (CIES) and Expenditure and Balance Sheet but no impact on the surplus for the year), unadjusted differences and material disclosure amendments (these are amendments made on the disclosure notes that we deem should be highlighted but do not have an impact on the financial statements).

The impact of these differences on the CIES are as follows:

- Adjusted differences (including adjusted classification): Increase in the Group and Council's Surplus for the year by £3.96m and increase in the Group and Council's Other Comprehensive Income for the year by £4.86m*.
- Unadjusted audit differences: Overstatement of the Group and Council's Surplus for the year by £0.42m and £0.68m respectively. Understatement of the Group and Council's Other Comprehensive Income for the year by £1.96m.
- Material disclosure amendments: No impact on the CIES.

*Based on a further adjustment relating to the valuation of Council Dwellings which management have agreed to process, the impact of adjusted differences on the Group and Council's Total Comprehensive Income for the year is expected to increase by £3.88m.

Details of these misstatements are included in Section 4 of this report.

Executive Summary

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 performed.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have no other matters to report.

Areas of audit focus

In our Audit Plan 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.

Area of audit focus / Inherent risk	Findings & Conclusion
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	From our testing of grants, we have identified the following material (exceeding overall materiality and/or material in nature) misstatements: • The overstatement of Capital Grants Received in Advance and understatement of Grant Income by £5.6m, • The accounting treatment of the clawback of a grant for the Feethams property as a reduction in grant income instead of being reflected as grant expenditure of £1.71m, • £7.72m of agent grants being recognised as grant income, and • Misclassification of Improved Better Care Fund & Social Care Grants amounting to £7.95m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services. We conclude that these misstatements were due to the misinterpretation of the accounting treatment for the specific grants rather than an indication of fraud and/or management override. We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure. 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.

Executive Summary

Areas of audit focus

In our Audit Plan 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.

Area of audit focus / Inherent risk	Findings & Conclusion
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.
Valuation of investment Property	We tested a sample of the Council's Investment Property and did not identify any misstatements in the valuation of Investment Properties.
Valuation of land and building held at depreciated replacement cost and existing use value	We tested a sample of the Council's assets and identified the following misstatements: • a £10.3 million understatement of the valuation of Council Dwellings which has been corrected in the updated financial statements. • Understatement of Rise Carr College by £0.3 million due to a difference between the valuer's report and the value included on the fixed asset register. This misstatement has not been corrected in the updated financial statements. • Understatement of the Honeypot Lane Property by £1.66 million due to inappropriate valuation technique and outdated valuation information. This misstatement has not been corrected in the updated financial statements Although there are uncorrected misstatements, we are satisfied that the Property, Plant and Equipment and related balances within the financial statements are not materially misstated.
Existence of infrastructure assets	This was a national issue arising from the widespread practice of not derecognising infrastructure assets appropriately. After a period of consultation, DLUHC and CIPFA identified a solution which took effect from 25 December 2022 with guidance issued in January 2023. The Council has decided to use the simpler option of disclosing the net book value of infrastructure assets, and we have reviewed these disclosures in the light of the recent guidance and the work done by the Finance team. We draw to the Council's attention that this approach is only allowed on a temporary basis, up to the financial year 2024-25. After this, bodies will be expected to account for infrastructure valuation in the standard way: but this allows time for them to be able to do this. We are satisfied that infrastructure assets has been accounted for appropriately.

Executive Summary

Areas of audit focus continued

Area of audit focus / Inherent risk	Findings & Conclusion
Pension liability valuation	We tested the Council's pension liability valuation and assessed the work of the Council's actuary, AON. We have undertaken additional audit procedures in responses to the updated ISA540 regarding accounting estimates. We have also considered the impact of the 2022 triennial actuarial valuation which has resulted in a material adjustment that has been processed in the updated financial statements. We are satisfied that the pension liability and associated balances within the financial statements are not materially misstated.
Group accounts	The Group accounts consolidate the Council's 6 joint ventures with Esh Homes Limited, we did not identify any material misstatements in our testing of the consolidation. We have noted an error in the single entity's financial statements, where the Share of Joint Ventures' profits amounting to £1.2m was incorrectly recognised as a debtor. Management have corrected this misstatement. We conclude that the Group financial statements and accounting for groups in the single entity's financial statement is not materially misstated.

Executive Summary

Areas of audit focus continued

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.

Control observations

During the audit, we identified the following significant deficiencies in internal control:

- Record keeping procedures over grant income. We recommend that management also regularly updates the grant register with additional information, including documenting the basis of accounting relating to all types of grants (revenue and capital), terms and conditions of grants, clawback clauses, expenditure funded by the grant and the permissibility to roll forward grants.
- Review and approval of manual journals and adjustments. We recommend that management ensures that all manual journals and adjustments are reviewed and approved when posted onto the system. This will enhance the prevention and detection of potential errors in postings.
- Records management. Due to the delay in starting the audit, we recognise the challenges faced by management in the retrieval of sufficient appropriate evidence for timely submission to the audit team as noted on page 8 of this report, however, we recommend that management enhances its controls around the safe keeping of supporting evidence to allow for easy retrieval of relevant appropriate information as required.

Independence

Please refer to Section 08 for our update on Independence.

02 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 by selecting a sample of grants and confirming the compliance with the applicable terms and conditions. We also focused on the accounting treatment for grants designated 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 2021/22 financial statements was appropriate. We have confirmed that the relevant terms and conditions were met by testing the funded expenditure in against the eligibility criteria as noted in the grant agreements/letters. We have also tested whether these had been appropriate reflected as principal or agent transactions, depending on the terms attached. We have also engaged with our internal technical team to assist with the interpretation of terms and conditions of S106 grants and the treatment of clawbacks.
- Tested a sample of Property, Plant and Equipment (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 investment property additions as the value was immaterial.
- Tested a sample of Revenue Expenditure Funded from Capital Under Statute (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 2021/22.

Areas of Audit Focus continued

What are our conclusions?

From our testing of grants, we have identified the following material misstatements:

- The overstatement of Capital Grants Received in Advance and understatement of Grant Income by £5.6m,
- The accounting treatment of the clawback of a grant for the Feethams property as a reduction in grant income instead of being reflected as grant expenditure of £1.71m,
- Grant income including transactions amounting to £1.02 million which did not related to Grant Income.
- £7.72m of agent grants being recognised as grant income, and
- Misclassification of the Local Tax Income Guarantee of £3.4m as Grants Credited to Services instead of Grants Credited to Taxation and Non-Specific Income.
- Misclassification of Improved Better Care Fund & Social Care Grants of £7.95m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services.
- Misclassification of Improved Better Care Fund & Social Care Grants of £7.31m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services in the prior year.
- Misclassification of the reversal relating to the Contain Outbreak Management Fund (COMF) Grant of £1.47m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services in the prior year.

We've also noted the following disclosure misstatements in grants notes 10 and 31:

- Note 10 - Taxation and Non Specific Grant Income: the 2021/22 values have been updated for the adjusted audit differences and disclosure amendments noted above. The comparatives were also updated by a net total of £5.84 million which has resulted in a prior year adjustment on the CIES.
- Note 31 - Grant Income: the 2021/22 and the comparative values have been updated to reflect the value of grant income recognised in the CIES, disclose revenue grants received in advance as a separate line item and to reconcile to Note 10. There was no impact on the CIES other than the prior year adjustment on the CIES amounting to £5.84 million as noted above. A narrative describing the prior year adjustment has also been included in Note 31.

  Please refer to Section 04 of this report for a detailed list of the disclosure amendments made to the 2021/22 financial statements.

We conclude that these misstatements were due to the misinterpretation of the accounting treatment for the specific grants rather than an indication of fraud and/or management override. Management have corrected these misstatements in the updated financial statements.

We have not identified any evidence of manipulation of expenditure through incorrect capitalisation of revenue expenditure.

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.

Significant risk

Misstatements due to fraud or error

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively.

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;
- Journals noted as unusual or outliers by our data analytics tool data, based on specifically developed risk criteria
- 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 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; and
- Performed mandatory procedures regardless of specifically identified fraud risks, including:
    - Testing journals at year-end and those identified by our data analytics tool 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.

Areas of Audit Focus continued

What are our conclusions?

We used our data analytics tools to select a sample of journal entries for testing to underlying evidence, based on specifically developed risk criteria. From our journal testing, we have noted that there is no evidence of review and approval of journals and manual adjustments. We recommend that management ensures that all manual journals and adjustments are reviewed and approved when posted onto the system. This will enhance the prevention and detection of potential errors in postings.

Although we have noted the control deficiency above, based on the supporting evidence provided, we did not identify any issues or indications of fraud and/or management override from our journals testing.

We reviewed accounting estimates included in the financial statements which were most likely to be subject to management bias. We have not identified any matters for reporting to the Audit Committee.

We did not identify any misstatements.

Our response to areas of audit focus

Further details on procedures/work performed

Valuation of Investment Property £14m

In our audit planning report, we highlighted the valuation of investment properties as an inherent risk. The fair value of Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes. 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 annually for investment property.
- 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 have also assessed the use of Investment Property to confirm the appropriateness of classifying property as Investment Property.

We also considered the usage of assets and whether there were any indicators of impairment.

We did not identify any material misstatements in the values for Investment Properties and classification thereof.

Our response to areas of audit focus

Further details on procedures/work performed

Valuation of land and building held at depreciated replacement cost (DRC) and existing use value (EUV) £293.62m

We have attached an inherent risk to the valuation of land and building held at DRC and EUV as these properties represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements in respect of key assumptions and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. We recognise that there are fewer assumptions used in the valuation of assets held at depreciated replacement cost, rather than open market value. We will also be focusing on assets which have had a change in use, e.g. from owner-occupied to letting.

We completed the following procedures to address the risk:

- 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;
- 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 land and buildings assets have been valued as part of a five-year rolling programme as required by the CIPFA Code of Practice;
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation
- Considered assets which have had change in use and the accounting treatment thereof; and
- Tested accounting entries have been correctly processed in the financial statements.

As indicated in the previous slides, we have noted the following misstatements in the valuation of PPE:

- a £10.3 million understatement of the valuation of Council Dwellings which has been corrected in the updated financial statements.
- Understatement of Rise Carr College by £0.3 million due to a difference between the valuer's report and the value included on the fixed asset register. This misstatement has not been corrected in the updated financial statements
- Understatement of the Honeypot Lane Property by £1.66 million due to an inappropriate valuation technique and outdated valuation information. This misstatement has not been corrected in the updated financial statements

We have also assessed the use of Property to confirm the appropriateness of classifying property as Property, Plant and Equipment. We had no matters to report in this regard.

Our response to areas of audit focus

Further details on procedures/work performed

Existence of infrastructure assets £98.2m

The accounting for infrastructure assets was a national issue arising from the widespread practice of not derecognising infrastructure assets appropriately. After a period of consultation, DLUHC and CIPFA identified a solution which took effect from 25 December 2022 with guidance issued in January 2023.

Since we have received this guidance and, we have attached an inherent risk to the existence of infrastructure assets rather than the valuation assertion as reflected in the audit planning report. We believe that the existence assertion was relevant as the issue pertained to failing to recognise disposals, which would mean that the gross carrying amount of infrastructure assets may include assets that have been replaced (no longer exists).

The Council has decided, in line with the guidance, to use the simpler option of disclosing the net book value of infrastructure assets, and we have reviewed these disclosures in the light of the recent guidance and the work done by the Finance team.

We draw to the Council's attention that this approach is only allowed on a temporary basis, up to the financial year 2024-25. After this, bodies will be expected to account for infrastructure valuation in the standard way: but this allows time for them to be able to do this.

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 2021/22, in order to include the joint venture arrangements with Esh Homes Limited. The Council owns 50% of the share capital of the 6 (previously 4) 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.

We have noted an error in the single entity's financial statements, where the Share of Joint Ventures' profits amounting to £1.2m was incorrectly recognised as a debtor. Management have corrected this misstatement. We conclude that the Group financial statements and accounting for groups in the single entity's financial statement is not materially misstated.

Our response to areas of audit focus

Further details on procedures/work performed

Pension liability **valuation £181.54m**

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.

During the subsequent events period the actuarial triennial valuation for 2022 was published for the scheme. We were required to consider this work as part of our audit of the 2020/21 & 2021/22 financial statements, as the IAS19 disclosures in the financial statements utilise membership data from the previous triennial valuation (2019) and a material movement in membership data could give rise to a material change required to the IAS19 figures presented. The IAS19 figures have been recalculated for 2021/22 and did show a material change in membership which has resulted in a material amendment to the 2021/22 pension liability value in the updated financial statements. Additionally, we liaised with the auditors of the Durham County Council Pension Fund to obtain assurances over the updated membership data supplied to the actuary in relation to Darlington Borough Council's participation in the scheme.

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

Areas of Audit Focus continued

Going concern

We have performed the following procedures to address the appropriateness of preparing the financial statements on the going concern basis:

- We challenged management's identification of events or conditions impacting going concern;
- We tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- We reviewed the Council's assessment that it is appropriate for the financial statements to be prepared on a going concern basis;
- We reviewed the Council's cashflow forecast covering a period of at least 12 months from the final approval date, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- We undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- We challenged the disclosure made in the accounts and annual report in respect of going concern and any material uncertainty.

Our audit work in this area is still ongoing, however, at the time of writing this report we have not identified any events or conditions that suggest managements assumption of going concern is inappropriate.

*Please note that we will revisit these going concern procedures up until the approval date of the financial statements to confirm that there is sufficient appropriate evidence that supports the council's going concern ability for at least 12 months from this approval date.

03 Audit Report

Draft Audit report

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

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Darlington Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Council and Group Movement in Reserves Statement,
- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement,
- the related notes 1 to 42 to the Council financial statements and the Group Accounts Introduction, Joint Venture and Group Accounting Policies,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 8, 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Darlington Borough Council and the Group as at 31 March 2022 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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. 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 Group Director of Operations' 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 Group and the Council's ability to continue as a going concern for a period to 30 April 2025.

Audit Report

Our opinion on the financial statements

Our responsibilities and the responsibilities of the Group Director of Operations 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 Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts for the year ended 31 March 2022, other than the financial statements and our auditor's report thereon. The Group Director of Operations is responsible for the other information contained within the Statement of Accounts for the year ended 31 March 2022.

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 Group and the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Group and the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects.

Responsibility of the Group Director of Operations

As explained more fully in the Statement of the Group Director of Operations' Responsibilities set out on pages 16, the Group Director of Operations is responsible for the preparation of the Statement of Accounts, which includes the Group 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Group Director of Operations determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Group Director of Operations is responsible for assessing the Group and the Council'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 and the Council either intends to cease operations, or has no realistic alternative but to do so.

Our opinion on the financial statements

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 Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- 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, 2020, and 2022,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Group and the Council 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, head of internal audit 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 Group and the Council's committee minutes, through enquiry of employees to confirm Group and the Council policies, and through the inspection of employee handbooks and other information. 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.

Our opinion on the financial statements

We assessed the susceptibility of the Group and the Council'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 manipulation of reported financial performance (through improper recognition of revenue and expenditure), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we tested grant income to terms and conditions to ensure the recognition criteria were properly met.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Group and the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, 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.

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 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether the 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 the 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 2022.

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 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 (as amended) to satisfy ourselves that the Authority has made 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.

Audit Report

Our opinion on the financial statements

Delay in certification of completion of the audit
We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Darlington Borough Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

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 (as amended) 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 (as amended) 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 Group and the Group's 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
8 April 2024

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 unadjusted differences

In addition we highlight the following misstatements (continued on the next page) to the financial statements and/or disclosures which were not corrected by management. We have highlighted misstatements greater than the single entity reportable threshold of £0.254m. We request that these 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. A table of the differences is attached on the next page and provide further detail below.

Audit differences

Unadjusted Differences:

Factual:

- PFI historic difference: The PFI Accounting Model used by the Council is not consistent with usual custom and practice that has been adopted across the sector. This matter has been reported in prior years (as factual) and reflects the current year unwind.
- L&S Management Costs are spread across expenditure and funded from ESFA Grant Funding. Revenue grants unapplied should be debited with the amount of expenditure funded from the grant, however, a debtor was recognised. This has resulted in the overstatement of L&S Management Team Debtor and revenue grants unapplied account by £0.36 million.
- Share of Joint Ventures' 2018/19 profits amounting to £0.34 million incorrectly recognised as a debtor in the single entity.
- Overstatement of housing benefits debtor XX26 as there was difference of £0.28 million between the sub-ledger and the debtor.
- Discrepancy noted for the valuation of Rise Carr College between management's specialist' valuation report and the value recognised in the fixed assets register. This has resulted in an understatement of £0.30 million in PPE.
- Evidence to support the Dolphin Centre Income amounting to £0.29 million was inaccessible due to these documents being placed into offsite storage.
- Overstatement of payments made in advance of £0.25 million and understatement of expenditure by £0.25 million due to the incorrect treatment.

Judgemental:

- Judgemental misstatement resulting in the understatement of the valuation of Honeypot Lane amounting to £1.66 million due to inappropriate valuation technique and outdated valuation information (2009 when further developments had been made by 2021).

Projected misstatements:

- From a sample of creditors as part of our creditors testing, we have identified Short-Term Creditors pertaining to the 2022/23 financial year that have been incorrectly assumed as income in advance in 2021/22. The contra entry was a debit to debtors. This has resulted in a projected overstatement of income in advance and debtors by £1.33 million.
- From a sample of debtors as part of our debtors testing, we have identified cash refunds to debtors were credited to creditors instead of reducing the debtors. This has resulted in in a projected overstatement of debtors and creditors by £1.71 million.

Audit Differences continued

Uncorrected misstatements 31 March 2022 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/ (Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Reserves Debit/ (Credit)
Audit differences (Council)							
Known differences:							
‣ PFI Liability (This matter has been reported in prior years and the above reflects the current year unwind.)		(141)				(1,115)	1,256
‣ Overstatement of L&S Management Team Debtor			(359)				359
‣ Share of Joint Ventures' 2018/19 profits incorrectly recognised as a debtor in the single entity			(338)				338
‣ Overstatement of housing benefits debtor XX26 - difference between the sub-ledger and the amounts included in the financial statements		280	(280)				
‣ Discrepancy noted for the valuation of Rise Carr College between management's experts' valuation report and the value recognised in the fixed assets register	(300)			300			
‣ Evidence to support the Dolphin Centre Income was inaccessible due to these documents being placed into storage		285	(285)				
‣ Overstatement of Prepayments*		254	(254)				
Judgemental differences:							
‣ Understatement of the valuation of Honeypot Lane due to inappropriate valuation technique and outdated valuation information (2009 when further developments had been made by 2021)	(1,657)			1,657			
Projected differences:							
‣ Short-Term Creditors pertaining to the 2022/23 financial year that have been incorrectly assumed as income in advance in 2021/22. The contra entry was a debit to debtors.			(1,330)		1,330		
‣ Cash refunds to debtors were credited to creditors instead of reducing the debtors..			(1,712)		1,712		
Income effect of uncorrected misstatements (before tax)	-	-					
Total of current year uncorrected misstatements*	(1,957)	678	(4,558)	1,957	3, 042	(1,115)	1,953

*This audit difference is below the Group's reportable threshold of £0.255m, which has resulted in a difference between the total impact of uncorrected misstatements on current assets and the CIES for the Group and Council. The impact of the total uncorrected misstatements on the Group current assets and CIES is -£4.304m and £0.424m.

Audit Differences

Uncorrected misstatements in the statement of cash flows

We note that management has used a balancing figure of £1.2 million on the face of the cash flow statement under "Other receipts" - this figure is to ensure that the cash flow statement balances at year-end and ties in with the Cash & Cash Equivalents movement. We have recommended that management ensure the cashflow is fully reconciled for all line items in future years.

Summary of adjusted differences

Audit differences

Adjusted Differences:

- The closing balance of Council Dwellings (Property, Plant and Equipment (PPE)) has been adjusted by +£6.5 million (and management have agreed to process a further adjustment of £3.8 million) to reflect its true position as at 31 March 2022.
- PPE amounting to £2 million had been incorrectly reflected as Inventory. Management has corrected this misstatement by adjusting PPE by +£2 million and decreasing Inventory by the same amount.
- Additions to PPE, amounting to £3.6 million, was incorrectly impaired immediately which has led to an understatement of PPE and overstatement of impairment expense. This entry has been reversed to correct the misstatement.
- Share of Joint Ventures' profits amounting to £1.2 million was incorrectly recognised as a debtor in the single entity. Management have corrected this misstatement by decreasing debtors and income by the same amount.
- Internal Debtors and Internal Creditors where overstated by £5.8 million which was corrected by decreasing debtors and creditors by the same amount.
- Payment in advance amounting to £1.5 million has been recognised as a debit to creditors. This has been corrected by recognising payment in advance and reversing the reduction in creditors.
- There was a misclassification of a long term creditor amounting to £0.57 million as a short term creditor. Management have corrected since corrected this error by debiting short term creditors and crediting long term creditors by the same amount.
- The pensions liability value per the draft 2021/22 financial statements were based on the 2019 triennial valuation. During the audit, the 2022 triennial valuation has since become available, which has resulted in a material change in the closing liability value. This has resulted in an adjustment of £5.05 million (reduction) to the pensions liability value.
- From our sample of Capital Grants Received in Advance (CGRIA), we have noted that the terms and conditions of the sampled grants were met, therefore, should be recognised as income. This has resulted in the overstatement of CGRIA and an understatement of Income. Management have revisited the population and it was determined that this misstatement applied to the entire population. This misstatement has been corrected by debiting CGRIA and crediting income by £5.6 million.
- Grant income including transactions amounting to £1.02 million which did not related to Grant Income which has been subsequently corrected by management.
- Agent Grants amounting to £7.72 million was inappropriately recognised as Grants Credited to Services. Management have corrected this misstatement by derecognising the income and expenditure for the same amount.
- Agent Grants income and expenditure amounting to £1.30 million inappropriately included in the Comprehensive Income and Expenditure Statement. This has been corrected by reversing the entry.
- Management have recorded the clawback for the grant pertaining to the Feethams building as a reduction to income by £1.71 million rather than as expenditure. This has been corrected in the updated financial statements.

Audit Differences continued

Audit differences

Adjusted Differences (continued):

- During 2021/22, management had derecognised the Central Government creditor for an amount of £2.64 million and recognised Business Rates Income for the same amount. However, it was noted that the amount of £2.64 million was in fact still owing to Central Government, resulting in the overstatement of Business Rates Income and understatement of Short-Term Creditors for the same amount. Management have since corrected the misstatement.
- SSR Capital expenditure of £0.65 million deducted from gross expenditure (net cost of services) although not originally included. Management have corrected this adjustment by reversing the entry.
- DLO Income/Expenditure had been double counted due to incorrect posting of recharges. This has been corrected through debiting income and crediting expenditure by £1.69 million
- Overstatement of income and expenditure amounting to £0.51 million due to internal top up payments recorded as income and expenditure for the Council. This has been corrected through debiting income and crediting expenditure by £0.51 million.
- Prior year adjustment – In 2020/21, an adjustment was made to Council Dwellings. However, the adjustment of £7.21 million was taken through the General Fund Reserves instead of the Housing Revenue Account (HRA) Reserve and therefore not reflected in the HRA statements. This has been corrected as a prior year adjustment and described in HRA Note 8.
- An adjustment was made in the 2020/21 financial statements to correct an audit difference identified in Council Dwellings which was processed after the publication of the draft 2021/22 financial statements. As the 2021/22 financial statements were drafted before the 2020/21 audit difference was raised, this prior year adjustment was not considered in the draft 2021/22 financial statements. Therefore, the initial entries posted for the valuation of Council Dwellings will need to be reversed, as these entries pertained to and was processed in the 2020/21 financial statements: DR Surplus on the revaluation of PPE – OCI £0.84m, DR Gross income - operations (revaluation of PPE) £7.21m, CR PPE £8.05m.

Adjusted Classification Differences:

- Misclassification of Improved Better Care Fund & Social Care Grant amounting to £7.95 million as Grants Credited to Taxation and Non-Specific Income. This has been corrected by debiting Grants Credited to Taxation and Non-Specific and crediting Grants Credited to Services by the same amount.
- Misclassification of the Local Tax Income Guarantee of £3.4m as Grants Credited to Services instead of Grants Credited to Taxation and Non-Specific Income.
- Misclassification of Improved Better Care Fund & Social Care Grants of £7.31m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services in the prior year.
- Misclassification of the reversal relating to the Contain Outbreak Management Fund (COMF) Grant of £1.47m as Grants Credited to Taxation and Non-Specific Income instead of Grants Credited to Services in the prior year.

Material disclosure amendments:

- Note 3 - £6.89m of earnings from the property funds reflected as fees, charges and other service income has been updated to reflect as investment income.
- Note 3 - Misclassification between Employee Expenses and Other Expenses amounting to £2.47 million
- Note 13 - Audit fees note updated to reflect the 2020/21 SFV
- Note 16 – The PPE note has been updated to disclose infrastructure assets in accordance with the amended code.
- Note 22 - Misclassification between General Debtors (BA07) and Payments in Advance (BA08) amounting to £0.55 million
- Note 24 - Incorrect classification of LGPS Payment as Government Creditor rather than Other Entities Creditor amounting to £1.09 million.
- Note 24 - Misclassification between Government Department Creditors (BL01) and General Capital Creditors (CL26) amounting to £0.57 million

Audit Differences continued

Audit differences

Material disclosure amendments (continued):

- Note 24 – Misclassification between Government Department Creditors (BL01) and Other entities and individuals (Income in Advance) (BL04) amounting to £0.56 million
- Note 10 & 31 (Current year) - Reclassification from Business Rates Income to Non-ringfenced Government Grants amounting to £2.14 million
- Note 10 & 31 (Current year) - Top-up Grant and Top-up Adjustment Grant totalling £7,678k disclosed stand-a-lone in Note 10 and 31 rather than within Business Rates Income.
- Note 31 (Current year) - Housing Benefits Expenditure (reflected in Note 31 – Grant income: Rent Allowances and Rent Rebates) has been updated as it was understated in the draft financial statements by £3.01 million.
- Note 10 & 31 (Prior year) – Top-up Grant and Top-up Adjustment Grant totalling £7,590k disclosed stand-a-lone within Note 10 and Note 31 rather than within Business Rates Income and Non-ringfenced Government Grant income.
- Note 10 & 31 (Prior year) – Allocated Local Tax Income Guarantee of £3.4m between Business Rates and Council Tax Income.
- Note 10 & 31 (Prior year) – Section 31 Grants amounting to £10.1m in aggregate (net of income and creditor) reclassified from Business Rates Income to Non-ringfenced Government Grants.
- Note 31 (Prior year) - Reclassified £6.38m of Grant from Taxation and Non-Specific to Credited to Services to reconcile with CIES in prior year.
- Note 31 (Prior year) - Reclassified £0.28m of Grant from Taxation and Non-Specific to Revenue Grants Received in Advance to reconcile with CIES in prior year.
- Note 31 (Prior year) - Council Tax Hardship Fund - Removed disclosure of £1.3m from Taxation and Non-specific grant income, removed £1,.2m as was already included within Council Tax Income, and reclassified £0.1m to grants credited to services to reconcile with CIES.
- Note 31 (Prior year) - Disclosed £4.27m recognised in the prior year Note 10. This was not disclosed in Note 31 in the prior year.
- Note 10 - Taxation and Non Specific Grant Income: the 2021/22 values have been updated for the adjusted audit differences and disclosure amendments noted above. The comparatives were also updated by a net total of £5.84 million which has resulted in a prior year adjustment on the CIES.
- Note 31 - Grant Income: the 2021/22 and the comparative values have been updated to reflect the value of grant income recognised in the CIES, disclose revenue grants received in advance as a separate line item and to reconcile to Note 10. There was no impact on the CIES other than the prior year adjustment on the CIES amounting to £5.84 million as noted above. A narrative describing the prior year adjustment has also been included in Note 31.
- The Cash Flow Statement has been updated to reflect the movement of £1m in short term investments within Investing activities
- The Cash Flow Statement has been updated to disclose the gross proceeds of £3m and repayments of £14.9m to/from short and long term borrowing which was previously disclosed on the net basis.
- Note 41 - Following an organisational restructure in 2021/22, Darlington Borough Council have reclassified income/expenditure in the CIES across the new service areas. The amended financial statements now include a disclosure note explaining the reason for the reclassification, and/or the amounts reclassified, as required by the CIPFA guidance notes.
- HRA Statements Note 2 has been updated to include the total Vacant Possession Value per the Align Report as at 1 April 2021 in line with CIPFA guidance as oppose to the value as per the Orchard Report as at 31 March 2022 in the draft financial statements.
- HRA Statements Note 8 - This note has been included to describe the prior year adjustment to the HRA reserve.
- Within the Group MIRS, the entity has brought forward the "Authority's" share of the reserves of joint ventures" column from 2019/20 rather than 2020/21. The "Other Comprehensive Income and Expenditure" has then been declared as a loss rather than a profit, and the overall balance at 31st March 2022 declared as a loss rather than a gain. This has been corrected in the amended financial statements.
- Group CIES: Updated share of JV is to reflect as a profit.

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.

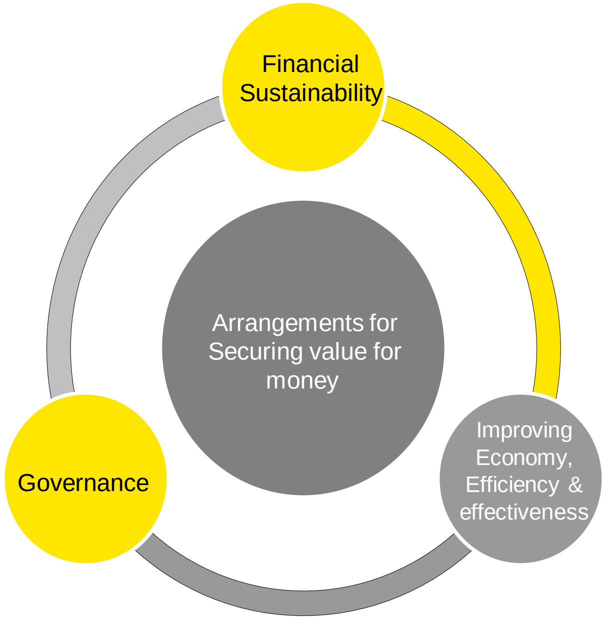
Risk assessment

In the Audit Plan circulated to the Audit Committee, we reported that our value for money (VFM) risk assessment was ongoing, therefore had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

We have now completed the risk assessment and have not identified any significant weaknesses or risks.

Status of our VFM work

We have substantially completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary by the end of April 2024 as part of issuing the Auditor's Annual Report.



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 2021/22 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 2021/22 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 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 not yet received the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We do not yet have a timeline for when we can expect to receive this guidance and therefore our audit certificate will remain open until our reporting is concluded in this respect.

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.

Other reporting issues

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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.

07 Assessment of Control Environment

Financial controls

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.

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.

The matters reported are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

We note that the root cause for these control deficiencies are mainly due to the elongated period lapse of 24 months between the 31 March 2022 year end and the finalisation of the financial statements together with the changes to the members in the finance team which resulted in difficulties of the new finance team trying to source data that was used to prepare the 2021/22 draft financial statements and difficulties in retrieval of documentation that had been filed in accordance with the Council's storage policy (please refer to page 8 of this report).

2021/22 control recommendations

Observation

During the audit, it was noted that there was a grant register in place, however, it was not regularly updated for related expenditure, excluded an assessment of terms and conditions of each grant, excluded an assessment of the agent vs principle aspect as well as possible clawback conditions. We recommend that grant register is updated regularly with this additional information.

Impact

As the grant register lacked key information as noted above, management had to perform these assessments of grants at a time long after the year end. Further, a range of grant related misstatements were noted during the audit process which could have possibly been avoided if the required analysis was performed during the grant register maintenance process. It also meant that audit procedures for grants have to be carried over an extended period of time.

Management Comment

2021/22 control recommendations

Observation	It was noted that there is a breakdown in controls over the review and approval of manual journals. We recommend that management ensures that all manual journals are reviewed and approved when posted onto the system. This will enhance the prevention and detection of potential errors in postings.
Impact	As reflected in this report, there were numerous misstatements arising from incorrect or duplicate posting of journals into the system such as double counting of income and expenditure, recognising a creditor instead of reducing debtors, etc. which could have possibly been detected during the review/approval process.
Management comment	

Observation	We have noted that, in some instances, relevant, appropriate supporting evidence could not always be submitted timely as to the engagement team due to documents being filed offsite in accordance with the Council’s storage policy. However, we recommend that management enhances its controls around the safe keeping of supporting evidence to allow for easy retrieval of relevant appropriate information as required.
Impact	This has resulted in various queries being raised and frequent ‘back and forth’ between management and the engagement team over an elongated period to obtain sufficient appropriate audit evidence.
Management comment	

08 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 2021 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 2022 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. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

Relationships, services and related threats and safeguards

Fees for Services provided by Ernst & Young

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Statutory Audit Fee	71,813	71,813	71,813
Scale Fee Variation	TBC	TBC	39,132
Total audit fee	**TBC**	**TBC**	**110,945**
Non-audit work – Housing Benefits Certification	25,300	25,300	10,500
Non-audit work – Teachers' Pensions AUP	5,850	5,850	5,500
Non-audit work – Pooling of Capital Receipts	10,000	10,000	5,500
Total non-audit services	41,150	41,150	**21,500**
Total fee	**TBC**	**TBC**	**132,445**

Other communications

EY Transparency Report 2023

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 2023:

EY UK 2023 Transparency Report | EY UK

09 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

Other updates to our audit approach since the circulation of the 2021/22 Audit Planning Report:

Materiality
In the 2021/22 audit planning report, we've included separate materiality figures for the Group and the Single Entity (the Council itself). We have revisited the materiality figures and determined that the group materiality figures would be appropriate for our testing for the following reasons:
- Gross expenditure (basis of planning materiality) is the same amount in the group and single entity financial statements.
- All amounts on the MIRS, CIES, Balance Sheet and Cash Flow Statement are the same on the single entity and group accounts, apart from the following which are also specific to the JVs and have been considered in our audit procedures on Group accounting:
  - Group MIRS: Authority's share of the reserves of joint ventures amounting to £1.09m.
  - Other comprehensive income: JV accounted for on an equity basis amounting to £0.76m.
  - Balance sheet: Investment in JVs (assets) and Usuable Reserves – Group Accounts both amounting to £1.09m.
- Substantially all of the account balances and classes of transactions are attributable to the single entity and audited centrally, therefore, using group materiality figures is appropriate.

As part of our concluding processes, we consider the impact of the revised financial statements on our materiality figures. Based on the revised gross expenditure value, now £255.2m, our updated overall materiality figure decreased to £5.1m (audit planning report - £5.3m). This resulted in updated performance materiality, at 75% of overall materiality, of £3.8 million, and an updated threshold for reporting misstatements of £255k.

Pensions Liability
The 2022 triennial actuarial valuation of pension liabilities has since become available following the circulation of the 2021/22 audit planning report (previous valuation being 2019). As the 2021/22 audit was still open, we were required to consider this work as part of our audit of 2021/22 financial statements, as the IAS19 disclosures in the financial statements utilise membership data from the previous triennial valuation (2019) and a material movement in membership data could give rise to a material change required to the IAS19 figures presented. The IAS19 figures have been recalculated for 2021/22 and did show a material change in membership. Management has provided evidence to support the fact that the main element of increase in members occurred in the 2021/22 financial year. We performed additional audit procedures to confirm the updated valuation of the pension liability.

Audit approach update continued

Infrastructure Assets

In our audit planning report, we have brought to the attention of the Audit Committee, the national issue pertaining to local authorities not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned (replaced assets would still remain on the asset register) which could result in a material misstatement in the financial statements.

As we were awaiting further sector guidance around this issue, we indicated that there may be a risk attached to the valuation of Infrastructure Assets.

We have since received this guidance and have attached an inherent risk to the existence of infrastructure assets. We believe that the existence assertion was relevant as the issue pertained to failing to recognise disposals, which would mean that the gross carrying amount of infrastructure assets may include assets that have been replaced (no longer exists).

We have conducted audit procedures in line with the published guidance.

The material balance sheet accounts we have audited are:

- Long and Short term Borrowings
- Capital Grants Received in Advance
- Long and Short term Creditors
- Other Long term liabilities (Pensions Liability)
- Long and short term Debtors
- Property, Plant and Equipment
- Investment Property
- Long term Investments
- Cash and Cash Equivalents
- Usable and Unusable Reserves

Appendix B

Summary of communications

Date	Nature	Summary
September 2022	Audit planning report	Audit planning report was circulated documenting the key risks and areas of audit focus
Throughout the audit	Meeting	The key members of the audit team met with the Finance manager and various members of management's team at least weekly to discuss a log of queries and issues. This included detailed discussion of testing items, progress and issued being identified.
Throughout the audit	Meeting	The engagement partner has attended audit committee meetings throughout the duration of the audit as necessary.
Quarterly	Meeting	The engagement partner and manager has quarterly meetings with the Chief Executive and Group Director of Operations.
Ad hoc through completion of audit	Meeting	We met with key members of the finance team, including the Assistant Director of Operations and the Finance Manager, while final audit procedures were being completed.
April 2024	Audit Results Report	Audit Results Report to be circulated/presented in April 2024.
April 2024	Auditor's Annual Report	Auditor's Annual Report to be circulated/presented in April 2024.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

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 September 2022)
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 September 2022)
Significant findings from the audit	▶ 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 (to be circulated/ presented in April 2024)

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ 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	
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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 (to be circulated/ presented in April 2024)
Misstatements	▸ 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 (to be circulated/ presented in April 2024)
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report (to be circulated/ presented in April 2024)

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ 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: 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 (to be circulated/ presented in April 2024)
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ 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 (to be circulated/ presented in April 2024)
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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 September 2022) Audit results report (to be circulated/ presented in April 2024)

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ 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	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report (to be circulated/ presented in April 2024)
Consideration of laws and regulations	▸ 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	Audit results report (to be circulated/ presented in April 2024)

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Significant deficiencies in internal controls identified during the audit	▶ Significant deficiencies in internal controls identified during the audit.	Audit results report (to be circulated/ presented in April 2024)
Group Audits	▶ 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 results report (to be circulated/ presented in April 2024)
Written representations we are requesting from management and/or those charged with governance	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report (to be circulated/ presented in April 2024)
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report (to be circulated/ presented in April 2024)
Auditors report	▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report (to be circulated/ presented in April 2024)

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]
Caroline Mulley
Ernst and Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Dear Caroline
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 2022. 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 2022 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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 the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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 the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) for the Group and 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 and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

Management representation letter continued

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].

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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 and including those related to the conflict can related sanction in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Group and Council, Council Committee and 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.

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

Management representation letter continued

Management Rep Letter

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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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 19 July 2023 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 on the Group and Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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. Going Concern

1. Note 42 to the consolidated and Council 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 and the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. 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 the Council and associated undertakings.

H. 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.

Management representation letter continued

Management Rep Letter

I. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered, including the impact resulting from the commitments made by the Group and Council, and reflected in the consolidated and Council financial statements.

2. The key assumptions used in preparing the consolidated and Council financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)), aligned with the statements we have made in the other information or other public communications made by us.

J. Comparative information – comparative financial statements

In connection with your audit of the comparative consolidated and Council financial statements for the year ended 31 March 2021 we represent, to the best of our knowledge and belief, the following:

1. During the year ended 31 March 2022 audit, it was noted that Note 31 - Grant Income was not prepared in accordance with all disclosure requirements as prescribed in the CIPFA guidance notes. This has been rectified in the current year by revising the note for current year and comparative values. During the council's exercise of revising the note, it was noted that there were grants amounting to £5.8m in aggregate that were classified as Taxation from Non-Specific Grant Income instead of as Grants Credited to Cost of Services in the prior year's Comprehensive Income and Expenditure Statement (CIES). This has been rectified in 2021/22 by restating the comparatives in the CIES for Cost of Services ('People') and Taxation and Non-Specific grant income by the £5.8m. Notes 3 - Expenditure and Funding Analysis, 10 - Taxation and Non Specific Grant Income and 31 - Grant Income have been updated to be consistent with the change in the CIES. The error pertains only to the classification of grant income. There is no overall impact on the 2020/21 surplus.

   In the 2020/21 financial statements, the council processed an adjustment to record Council Dwellings at its appropriate value as at 31 March 2021. However, the impact of this adjustment of £7.2m was not fully reflected in the 2020/21 Housing Revenue Account (HRA) and Movement in Reserves Statement (MIRS) as the revaluation gain was taken to the General Fund Reserve instead of the HRA. This error has been rectified in the 2021/22 financial statements by restating the comparative values relating to the HRA and the MIRS. The 2021/22 comparatives in the HRA Income and Expenditure Statement and HRA Movement on the HRA Statement have been restated to recognise the revaluation gain of £7.2m. In addition, the comparative for Adjustments to Revenue Resources in Note 5 - Adjustments Between Accounting Basis and Funding Basis Under Regulations has been restated to recognise the gain in the correct reserve. There is no overall impact on the total 2020/21 Reserves balance.

   The comparative amounts have been correctly restated to reflect the above matters and appropriate note disclosure of these restatements have also been included in the current year's consolidated and Council financial statements.

   There have been no significant errors or misstatements, or changes in accounting policies, other than the matters described above, that would require a restatement of the comparative amounts in the current year's consolidated and Council financial statements. Other differences in the amounts shown as comparative amounts from the amounts in the consolidated and Council financial statements for the year ended 31 March 2021 are solely the result of reclassifications for comparative purposes.

K. 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 sheets.

Management representation letter continued

Management Rep Letter

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.

L. Reserves

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

M. 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.

N. 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 valuation of the pension liability 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.

O. 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 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 carry out an accurate valuation on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

5. We confirm that appropriate specialized skills or expertise has been applied in making the valuation of land, buildings and investment properties.

Management representation letter continued

Management Rep Letter

IAS 19 Pensions Liability Estimate

1. 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.

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 IAS 19 pensions liability estimate.

3. We confirm that the significant assumptions used in making the IAS 19 pensions liability estimate appropriately reflect our intent and ability to carry out accurate valuation of the IAS 19 pensions liability on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate, 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

5. We confirm that appropriate specialized skills or expertise has been applied in making the IAS 19 pensions liability estimate.

Creditor Accruals Estimate

1. We confirm that the significant judgments made in making the creditor accruals 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 creditor accruals estimate.

3. We confirm that the significant assumptions used in making creditor accruals estimate appropriately reflect our intent and ability to carry out appropriate valuation of creditor accruals on behalf of the entity.

4. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimate, 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 2021/22 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

P. 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,

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Group Director of Operations

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Chair of the Audit Committee

EY | Assurance | Tax | Transactions | Advisory

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