Darlington Borough Council

Auditor’s Annual Report

Year ended 31 March 2022

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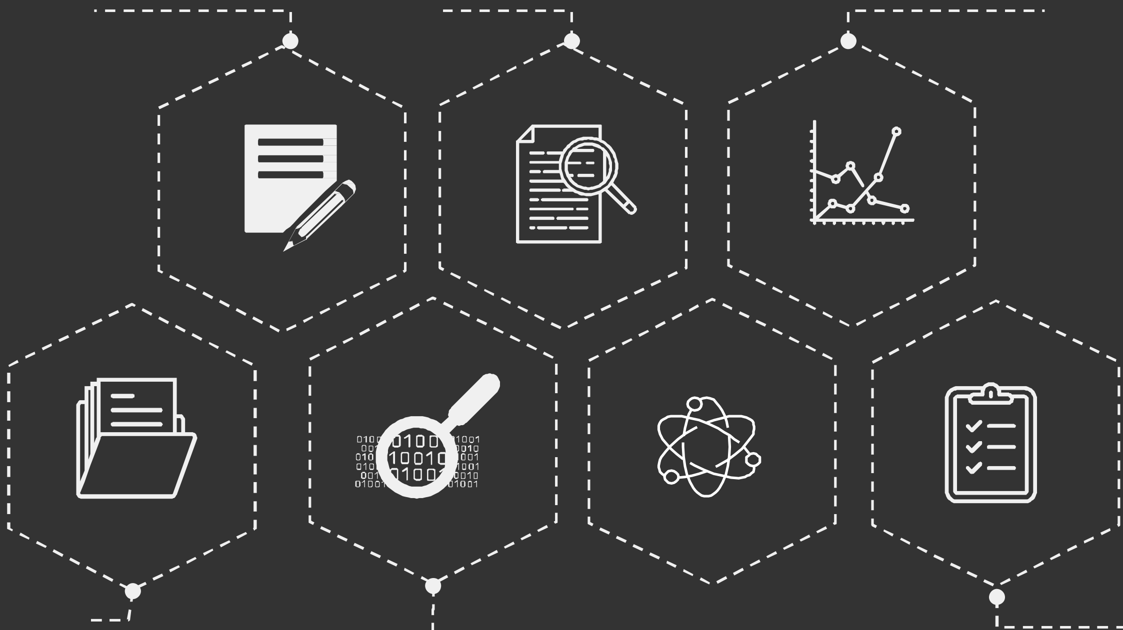

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement 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 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 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.

Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on September 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2012/22 Conclusions	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 12 April 2024.
Going concern	We have concluded that the Group Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	The National Audit Office (NAO) has concluded on the 2021/22 Whole of Government Accounts. We have received confirmation on 11 April 2024, that we can issue the audit certificate for the 2021/22 year.
Certificate	We issued our certificate on 12 April 2024.

Audit of the financial statements

Key findings

The Narrative Statement and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 12 April 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 8 April 2024 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We reported 3 internal control recommendations in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition	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. From our testing of grants, we have identified the following material (exceeding overall materiality and/or material in nature) misstatements in the current year: • 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.

Audit of the financial statements

Significant risk	Conclusion
Misstatements due to fraud or error	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. Our work did not identify any material weaknesses in the design and/or operation of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Other areas of audit focus	Conclusion
Valuation of Investment Property – 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.

Audit of the financial statements

Other areas of audit focus	Conclusion
Valuation of land and building held at depreciated replacement cost (DRC) and existing use value (EUV) – 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. 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.
Existence of infrastructure assets - 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.

Audit of the financial statements

Other areas of audit focus	Conclusion
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.
Pension Liability valuation - The Pension Fund /liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	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. 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.

Audit of the financial statements

Other areas of audit focus	Conclusion
Pension Liability valuation	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.
Going concern disclosures - The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.	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. We have no issues to raise in this area.

Update since the circulation of the 2021/22 Audit Results Report (ARR) that was presented to the Audit Committee on 8 April 2024:

- The remaining adjustment of £3.88m relating to the valuation of Council Dwellings has been processed in the amended 2021/22 financial statements. Therefore, the total adjustment to Council Dwellings for the current year valuation was £10.322m.
- The ARR indicated that management has used a balancing figure of £1.2 million on the face of the cash flow statement under "Other receipts" to ensure that the cash flow statement balances at year-end and ties in with the Cash & Cash Equivalents movement. This has since been resolved in the amended 2021/22 financial statements.
- The National Audit Office (NAO) has concluded on the 2021/22 Whole of Government Accounts. We have received confirmation on 11 April 2024, that we can now issue the audit certificate for the 2021/22 year. We issued our certificate on 12 April 2024.

Value for Money

We did not identify risks of significant weaknesses in the Council VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 8th April 2024 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with audit committee members and evaluation of associated documentation through our regular engagement with Council management and the finance team. We did not identify any significant risks for VFM from our VFM planning procedures.

We completed our risk assessment procedures in March 2024 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. We include within the VFM commentary below the associated recommendation(s) we have agreed with the Council. Our commentary for 2021/22 is set out over pages 11 to 14. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Identified Risks and work performed

Finance staff work with Service managers to identify any potential pressures/savings over the next 4 years at budget setting time (also reviewing any pressures/savings previously identified), agreed by the relevant Assistant Director (AD)/Director and then these are collated by the Corporate Finance Manager and presented to the Chief Officers' Executive (COE) who review and challenge. Numerous iterations are brought back to COE until they are satisfied that the pressures/savings show a true representation of the potential pressures/savings for the foreseeable future. costings and business plans are required to substantiate pressures/savings where necessary. To underpin all of the above, management performs budget management continuously to any pressures/savings at an early stage and these are presented to Cabinet on a quarterly basis with appropriate action taken. Management also proactively monitors and amends the budget where considered necessary.

Savings and pressures are identified in an holistic approach. Resources are identified and projected based on intelligence gathered and forecast numbers i.e. council tax is calculated on the existing taxbase with relevant projections of new housebuilding (from Planners) taken into account as well as any previously agreed council tax increases. The Council also commission external consultants (LG Futures) to help predict any potential changes in resources going forward i.e. NNDR changes through a reset, changes to new homes bonus, etc.

Whilst the Central Government provided significant recurring grants as well as one-off grants to the Council during the 2021/22 year to support the additional costs associated with Covid-19, as per the 2021/22 Statement of Accounts, the Council's revenue reserves (including the Joint Venture reserves) at the end of 2021/22 are £30.042m, £5.116m higher than the planned balances in the 2021-25 Medium Term Financial Plan (MTFP) position. Of the £30.042m reserves for 2021/22, the Council had a risk reserve balance of £5.350m, leaving £24.692m for use in future years.

The 2024/25 MTFP projects a reserves balance of £16.384m at the end of 2023/24 after taking into account the risk reserve balance of £5.350m. However, there will be ongoing pressures leading to a full review of the MTFP in 2024/25. While significant, it is due to costs associated with high demand for Children's Social Care, the rising cost of inflation and living wage increases, which is consistent with Councils across the country. Due to these added pressures, the MTFP projects a budget deficit of £6.283m at the end of the 2024/25 year. In light of the significant financial pressures the Council is facing, efficiency measures and savings to reduce expenditure in areas which do not directly hit service provision has been undertaken and services are continually reviewed in this regard. The 2024/25 MTFP projects savings of £4.019m.

When establishing the Councils medium term financial plan the Council adopts a risk-based approach looking at relevant external factors such as changes in government policy, the state of the economy and the impact on demand for services.

The risks identified in the 2021/22 Revenue Outturn Report are in line with our expectations of both the Council's and the sector's risks, many of which relate to, as mentioned above, the Covid-19 pandemic, the increase in Social Care demand, as well as the rising cost of living expenses. The identification of such risks is clear and the Council has sufficient arrangements in place to mitigate the impacts of these risks to ensure sustainable delivery of services.

The Council has a (costed) risk reserve that identifies potential changes in demand, again as the Council does continual budget management any changes or inherent risks are identified at an early stage so that appropriate action can be taken and to ensure that any risks identified can be built into future plans.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

Due to the significant disruption to normal activity from the pandemic, in previous years, and moving to a 'new normal' way of operations in the current year, there is recognition within the sector that operations have been difficult to predict for 2021/22. Management has closely monitored outturn throughout 2021/22. Given these uncertainties together with the pressures noted above, management's more cautious approach during 2021/22 is considered to be a reasonable approach.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Identified Risks and work performed

The Council has a comprehensive risk register that is facilitated by the Complaints and information Governance Manager who liaises with all service groups and produces a Corporate risk register as well as individual service group matrices - the results are presented to Audit Committee on an annual basis with the Risk Management Strategy going to Cabinet. The Council has an Internal Audit Section (a shared service with Stockton Borough Council) that has a comprehensive risk based audit approach to all of the services in Darlington with results reported to Audit Committee on a quarterly basis.

Due to the significant disruption to normal activity from the pandemic in previous years and moving to a 'new normal' way of operations in the current year, there is recognition within the sector that operations have been difficult to predict for 2021/22. Management has closely monitored outturn throughout 2021/22. Given these uncertainties together with the pressures noted above, management's more cautious approach during 2021/22 is considered to be a reasonable approach.

The Council starts its budget setting cycle early (July) with Finance officers liaising with service managers and reviewing the previous years performance as well as the current MTFP budgets before identifying any potential future pressures/savings. A set of guidance notes is produced by corporate finance to ensure a consistent approach. Any pressures/savings are identified early so that COE can review them to ascertain their validity . Each service group works to an agreed resource allocation envelope that is part of the MTFP process that identifies resources to fund the MTFP. The draft MTFP for the next 4 years is presented to Cabinet in December to allow a consultation period with relevant stakeholders etc until it is brought back to Cabinet in January before going to full Council in February for approval and subsequent implementation. The continuous revenue budget monitoring that the Council carries out also contributes to the budget cycle as most pressures/savings or potential amendments to the MTFP will of been identified at an early stage.

The Council does continuous budget management with the aid of an electronic budget management system (FMS) that sends out budget management reports on spend/budget/commitments etc every month on email to each budget holder. The completed sheets are loaded back into the FMS to allow relevant reports to be produced. The Council works on a risk basis with high risk areas being reported on a monthly basis and low risk areas every 3 months, with an Outturn report taken at end of year (June/July). The results of the budget management process are presented to Cabinet every quarter to enable Members to analyse the ongoing financial situation. These reports are also on the Agenda of Economy & Resources Scrutiny Committee which also carries out regular reviews.

The Council recognises that in order to fulfil its purpose and deliver the intended outcomes for its citizens and service users it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it operates in an effective, efficient and ethical manner. The Council has a wide range of HR policies covering expectations and requirements of staff. These are categorised into a number of themes, for example policies relating to the conduct of individuals (e.g. anti-fraud, bullying, whistleblowing policies etc.). Failure to adhere to these policies can result in disciplinary procedures against individuals.

The Council has policies on these areas that everybody is required to read and acknowledge, with relevant statistics produced and reported to Audit Committee on a regular basis as well as the results of any said action taken if the standards have not been met (report by Monitoring Officer).

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Value for Money (continued)

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

Identified Risks and work performed

Management does extensive benchmarking to ensure that it is not an outlier in terms of performance - they still strive to keep costs at an acceptable level. In setting the budget they use statistical data to ensure costs are correctly identified.

The Council is constantly striving to improve our services by embracing and identifying best practice. In Childrens' Social Care, the Council had been working in conjunction with the Department for Education (DfE) and Leeds City Council (who are recognised as being leaders in the field) to identify any areas of improvement to encourage best practice in one of the big spending areas - Strengthening Families. The formal input from DfE and Leeds City Council has now ceased and the Council has developed a sustainability plan with key strategic aims for 2022/23.

The Council also has a partnership tool kit that identifies the significant partners of the Council to ensure that adequate governance arrangements are in place and this is reported to Audit Committee annually, as above quarterly financial reports (both revenue and capital) are taken to Cabinet to allow them to monitor the financial situation of the Council and take any action as appropriate. The annual MTFP is presented to Cabinet every December and recommended for consultation with stakeholders and scrutiny committees before the final report is presented to Special Council in the following February (after taking account of any constructive feedback).

The Council has a dedicated Procurement section and a well established process to ensure that all contracts (over the de minimis limit of £10k) follow the recognised procedure of going to Procurement Board (with high ranking officers membership) to be agreed. There is also a flag on the FMS (Agresso) that gives a warning to the Procurement section of any invoice over the £10k limit that has not had Procurement Board approval. The contracts register is published on the website and is periodically updated. Procurement also analyse the spend of the Council on a continuous basis to ensure consistency and identify anomalies.

The joint Ofsted and Care Quality Commission (CQC) inspection for Special Education Needs and/or Disabilities (SEND) for the Darlington Local Area was carried out in January 2022. The inspection report noted areas for improvement/development. The Council has developed a Written Statement of Action (WSOA) to address the areas for improvement upon which significant progress has been made. The findings from the joint inspection do not present a significant weakness in our risk assessment for VFM.

In May – June 2022, the Council embarked on a Peer Review. The Council wrote a position statement and over 120 people from the Council, private and the third sector were interviewed by the team from the Local Government Association (LGA). The report highlighted that the Council is well led with a positive culture, where staff are keen to get on with things and make a difference to the Borough. Compared to local government as a whole, the organisation is financially secure and has the appropriate governance and risk management arrangements in place - though there are emerging financial risks on the horizon associated with increased demand for social care services, inflation and the cost-of-living crises. The LGA has also made particular references to the partnerships the Council has, the workforce who resonated positivity, the great economic growth achievements made to date, and the opportunities emerging for Darlington. The LGA team's report was presented to Cabinet on 11 October and an update on Cabinet's recommendations was presented on 8 November 2022.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	Finance staff work with Service managers to identify any potential pressures/savings over the next 4 years at budget setting time (also reviewing any pressures/savings previously identified), agreed by the relevant Assistant Director (AD)/Director and then these are collated by the Corporate Finance Manager and presented to the Chief Officers' Executive (COE) who review and challenge. Numerous iterations are brought back to COE until they are satisfied that the pressures/savings show a true representation of the potential pressures/savings for the foreseeable future. costings and business plans are required to substantiate pressures/savings where necessary. To underpin all of the above, management performs budget management continuously to any pressures/savings at an early stage and these are presented to Cabinet on a quarterly basis with appropriate action taken. Management also proactively monitors and amends the budget where considered necessary.
How the body plans to bridge its funding gaps and identifies achievable savings	Savings and pressures are identified in an holistic approach. Resources are identified and projected based on intelligence gathered and forecast numbers i.e. council tax is calculated on the existing taxbase with relevant projections of new housebuilding (from Planners) taken into account as well as any previously agreed council tax increases. The Council also commission external consultants (LG Futures) to help predict any potential changes in resources going forward i.e. NNDR changes through a reset, changes to new homes bonus, etc. Whilst the Central Government provided significant recurring grants as well as one-off grants to the Council during the 2021/22 year to support the additional costs associated with Covid-19, as per the 2021/22 Statement of Accounts, the Council's revenue reserves (including the Joint Venture reserves) at the end of 2021/22 are £30.042m, £5.116m higher than the planned balances in the 2021-25 Medium Term Financial Plan (MTFP) position. Of the £30.042m reserves for 2021/22, the Council had a risk reserve balance of £5.350m, leaving £24.692m for use in future years. The 2024/25 MTFP projects a reserves balance of £16.384m at the end of 2023/24 after taking into account the risk reserve balance of £5.350m. However, there will be ongoing pressures leading to a full review of the MTFP in 2024/25. While significant, it is due to costs associated with high demand for Children's Social Care, the rising cost of inflation and living wage increases, which is consistent with Councils across the country. Due to these added pressures, the MTFP projects a budget deficit of £6.283m at the end of the 2024/25 year. In light of the significant financial pressures the Council is facing, efficiency measures and savings to reduce expenditure in areas which do not directly hit service provision has been undertaken and services are continually reviewed in this regard. The 2024/25 MTFP projects savings of £4.019m.

Appendix A – Summary of arrangements

Financial Sustainability (continued)

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	When establishing the Councils medium term financial plan the Council adopts a risk-based approach looking at relevant external factors such as changes in government policy, the state of the economy and the impact on demand for services. The risks identified in the 2021/22 Revenue Outturn Report are in line with our expectations of both the Council's and the sector's risks, many of which relate to, as mentioned above, the Covid-19 pandemic, the increase in Social Care demand, as well as the rising cost of living expenses. The identification of such risks is clear and the Council has sufficient arrangements in place to mitigate the impacts of these risks to ensure sustainable delivery of services.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	The MTFP is under the same directorship as the workforce, capital, investment and operational planning ensuring consistency across the board. The capital strategy incorporates the capital programme and is therefore embedded with the investment strategy plan being part of the Treasury Management Strategy. All of the plans are presented to Cabinet to be scrutinised by Members as well as being included in the tried and tested committee cycle whereby each report is signed off by a finance representative (if any financial implications) and legal before being checked by the relevant AD and Director. Chief Officers Board (COB) which consists of all of the assistant directors of the Council meet on a weekly basis and all of above plans will be discussed as appropriate to ensure consistency and that they are all fit for purpose and agree with the Council's vision - the management team of the Council that consists of all of the Directors also meets independently of COB to discuss the strategic direction of the Council. The Director of Operations has regular scheduled meetings with other Directors of Resources in the Tees Valley where common aims as discussed and agreed and to share best practice ensuring some form of consistency across the Tees Valley.
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	The Council has a (costed) risk reserve that identifies potential changes in demand, again as the Council does continual budget management any changes or inherent risks are identified at an early stage so that appropriate action can be taken and to ensure that any risks identified can be built into future plans.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has a comprehensive risk register that is facilitated by the Complaints and information Governance Manager who liaises with all service groups and produces a Corporate risk register as well as individual service group matrices - the results are presented to Audit Committee on an annual basis with the Risk Management Strategy going to Cabinet. The Council has an Internal Audit Section (a shared service with Stockton Borough Council) that has a comprehensive risk based audit approach to all of the services in Darlington with results reported to Audit Committee on a quarterly basis. Due to the significant disruption to normal activity from the pandemic in previous years and moving to a 'new normal' way of operations in the current year, there is recognition within the sector that operations have been difficult to predict for 2021/22. Management has closely monitored outturn throughout 2021/22. Given these uncertainties together with the pressures noted above, management's more cautious approach during 2021/22 is considered to be a reasonable approach.
How the body approaches and carries out its annual budget setting process	The Council starts its budget setting cycle early (July) with Finance officers liaising with service managers and reviewing the previous years performance as well as the current MTFP budgets before identifying any potential future pressures/savings. A set of guidance notes is produced by corporate finance to ensure a consistent approach. Any pressures/savings are identified early so that COE can review them to ascertain their validity . Each service group works to an agreed resource allocation envelope that is part of the MTFP process that identifies resources to fund the MTFP. The draft MTFP for the next 4 years is presented to Cabinet in December to allow a consultation period with relevant stakeholders etc until it is brought back to Cabinet in January before going to full Council in February for approval and subsequent implementation. The continuous revenue budget monitoring that the Council carries out also contributes to the budget cycle as most pressures/savings or potential amendments to the MTFP will of been identified at an early stage.
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	The Council does continuous budget management with the aid of an electronic budget management system (FMS) that sends out budget management reports on spend/budget/commitments etc every month on email to each budget holder. The completed sheets are loaded back into the FMS to allow relevant reports to be produced. The Council works on a risk basis with high risk areas being reported on a monthly basis and low risk areas every 3 months, with an Outturn report taken at end of year (June/July). The results of the budget management process are presented to Cabinet every quarter to enable Members to analyse the ongoing financial situation. These reports are also on the Agenda of Economy & Resources Scrutiny Committee which also carries out regular reviews.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	The Council recognises that in order to fulfil its purpose and deliver the intended outcomes for its citizens and service users it needs to have in place comprehensive arrangements for corporate governance and accountability designed to ensure that it operates in an effective, efficient and ethical manner. The Council has a wide range of HR policies covering expectations and requirements of staff. These are categorised into a number of themes, for example policies relating to the conduct of individuals (e.g. anti-fraud, bullying, whistleblowing policies etc.). Failure to adhere to these policies can result in disciplinary procedures against individuals.
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	The Council has policies on these areas that everybody is required to read and acknowledge, with relevant statistics produced and reported to Audit Committee on a regular basis as well as the results of any said action taken if the standards haven't been met (report by Monitoring Officer).

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	Management does extensive benchmarking (predominantly through CIPFA) to ensure that we are not an outlier in terms of performance - they still strive to keep costs at an acceptable level. In setting the budget they use statistical data to ensure costs are correctly identified, e.g. the 2024/25 MTFP has acknowledged that the demand of Children's Services significantly increased by 33% since pre-Covid years which impacts the cost of provision of these services.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council is constantly striving to improve our services by embracing and identifying best practice. In Childrens' Social Care, the Council had been working in conjunction with the Department for Education (DfE) and Leeds City Council (who are recognised as being leaders in the field) to identify any areas of improvement to encourage best practice in one of the big spending areas - Strengthening Families. The formal input from DfE and Leeds City Council has now ceased and the Council has developed a sustainability plan with key strategic aims for 2022/23. There was also a Peer Review conducted in June 2022 as well as a joint inspection by Ofsted and the CQC in January 2022.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council also has a partnership tool kit that identifies the significant partners of the Council to ensure that adequate governance arrangements are in place and this is reported to Audit Committee annually, as above quarterly financial reports (both revenue and capital) are taken to Cabinet to allow them to monitor the financial situation of the Council and take any action as appropriate. The annual MTFP is presented to Cabinet every December and recommended for consultation with stakeholders and scrutiny committees before the final report is presented to Special Council in the following February (after taking account of any constructive feedback).
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Council has a dedicated Procurement section and a well established process to ensure that all contracts (over the de minimis limit of £10k) follow the recognised procedure of going to Procurement Board (with high ranking officers membership) to be agreed. There is also a flag on the FMS (Agresso) that gives a warning to the Procurement section of any invoice over the £10k limit that hasn't had Procurement Board approval. The contracts register is published on the website and is periodically updated. Procurement also analyse the spend of the Council on a continuous basis to ensure consistency and identify anomalies.

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements. All recommendations have been agreed by management. There were no recommendations arising from the value for money audit in 2021/22.

Issue	Recommendation	Management Response
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 the 2021/22 Annual Results 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.	

Appendix C – Fees

Fees

We carried out our audit of the Council and Group financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the presumed risk of fraud in revenue and expenditure recognition, management override (misstatements due to fraud or error), valuation of investment property, valuation of property, plant and equipment (land and buildings valued using the depreciated replacement cost and existing use value techniques), existence of infrastructure assets, and the valuation of the pension liability. As a result, we have discussed an associated additional fee with the Group Director of Operations which remains subject to approval by PSAA Ltd.

Our fee for 2020/21 is in line with the audit fee agreed and reported in our Annual Results Report, updated to take account of the extra work required as set out above.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Total Audit Fee – Code work	71,813	71,813	71,813
Scale Fee Variation (Note 1 and Note 2)	153,181	30,000	39,132
Total Audit Fee	224,994	101,813	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 work	41,150	41,150	21,500
Total fee	266,144	142,963	132,445

For 2021/22 the scale fee has been re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and Group and additional work to address the increase in Regulatory standards.

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

Note 1:
The planned scale fee of £30,000 relates to £21,000 proposed increase in scale fee to reflect the changes to address additional professional an regulatory requirements and scope associated with risk, £6,500 for the change to VFM reporting, and £2,500 for the impact of ISA 540.

Appendix C – Fees

Fees (continued)

Note 2:
The 2021/22 final scale fee variation of £97,335 has been estimated as follows. Please note that this fee is yet to be determined by the PSAA.

Fee category	Reason	Fee £
Group	Area of Audit Focus – Discussed in this report and the 2021/22 Audit Results Report	4,173
Pension Valuation	Area of Audit Focus – Discussed in this report and the 2021/22 Audit Results Report	9,122
PPE Valuation	Area of Audit Focus – Discussed in this report and the 2021/22 Audit Results Report	27,410
PFI	Misstatement noted – Discussed in the 2021/22 Audit Results Report	1,102
Whole of Government Accounts	Fee not include in the scale fee	315
Technical Accounting issues	Audit work on the following areas are specific to the 2021/22 audit and therefore not factored into the scale fee: - Various misstatements and misclassifications noted in grants and correction thereof, debtors testing, creditors testing, and income and expenditure testing. Please note that these misstatements (corrected and uncorrected) have been communicated in the 2021/22 Audit Results Report.	52,584
Quality or preparation issues	Audit work on the following areas not considered in other areas of this table and are specific to the 2021/22 audit and therefore not factored into the scale fee: - Overstatement of housing benefits debtor XX26 as there was difference of £0.28 million between the sub-ledger and the debtor. - Evidence to support the Dolphin Centre Income amounting to £0.29 million was inaccessible due to these documents being placed into offsite storage. - Amendments to the Cash flow Statement (Council and Group) 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, change in investments, the correct movement in creditors and debtors, the reclassification of short term investments to cash and cash equivalents, and the impact of corrected misstatements. - Multiple submission of information for various sections of the audit due to initial submission not being sufficient and appropriate evidence - The engagement team has received 19 versions of the financial statements during the finalising process. This has resulted in the engagement team having to review and cast the financial statements repeatedly, as well as confirm that adjustments were made and queries resolved appropriately.	14,490
VFM commentary	New NAO reporting requirements not factored into the scale fee and additional work performed on the findings of the joint inspection by Ofsted and the CQC. The elongated period of the audit also led to the engagement team having to review multiple reports such as the Revenue Outturn and MTFP for multiple quarters/years.	10,075
COVID-19	Additional work relating to Covid grant income and the impact of Covid on the going concern ability of the Council which have not been factored into the scale fee.	3,031
Increased FRC challenge	Increased cost of regulation and compliance for EY: There are a several areas where an increase in overhead costs has led to a spread of costs across audits, this allocation is made based on the size and complexity of the audit.	6,428
ISA540	ISA 540 Auditing accounting estimates and related disclosures was subject to a fundamental redraft. This involved enhanced risk assessment and increased focus on professional scepticism. This has not been factored into the scale fee. ISA 540 changes affected 4 significant estimates in 2021/22; Pension Asset/Liability Disclosures, Investment Property (IP) and PPE Valuation, Creditor Accruals, and Capital Grants Received in Advance.	4,388
Infrastructure assets	Area of Audit Focus – Discussed in this report and the 2021/22 Audit Results Report	1,323
Other	Audit work on the following areas are specific to the 2021/22 audit and therefore not factored into the scale fee: - Prior year adjustment to the HRA reserve - Elongated audit period as noted in the 2021/22 audit results report which resulted in resulted in the audit team needing to re-perform or extend certain procedures including, attendance of committee and meetings and meetings with management, minute review, an elongated post balance sheet event review, elongated cashflow forecasts to support going concern, elongated press sweeps which all required additional documenting and reviewing, given this 2021/22 audit was signed more than two years after the balance sheet date. - Additional time on the preparation of the audit results report due to more misstatements noted in the current year as well as review of multiple finance reports such as the quarterly revenue outturn reports and MTFPs for multiple periods.	18,740
Total		153,181

Appendix C – Fees
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.

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