

Darlington Borough Council Completion Report for Those Charged with Governance

Year ended 31 March 2023

Report issued – 25 November 2024



Building a better
working world

Audit Committee
Darlington Borough
Council
Town Hall
Darlington
DL1 5QT

25 November 2024

Dear Audit Committee

Completion Report for Those Charged With Governance

Attached is our Completion Report for Those Charged With Governance. The purpose of this report is to provide the Audit Committee of Darlington Borough Council (the Council) with a detailed complete report covering our approach and outcomes of the 2022/23 audit.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the audit and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

In completing our work for this audit year we have taken into account Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024", Local Authority Reset and Recovery Implementation Guidance. We have also taken into account the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice (including recent 2024 updates), the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. Against this backdrop, we have also considered the Committee's service expectations.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit.

We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Audit Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

We draw the Audit Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix E).

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

Yours faithfully

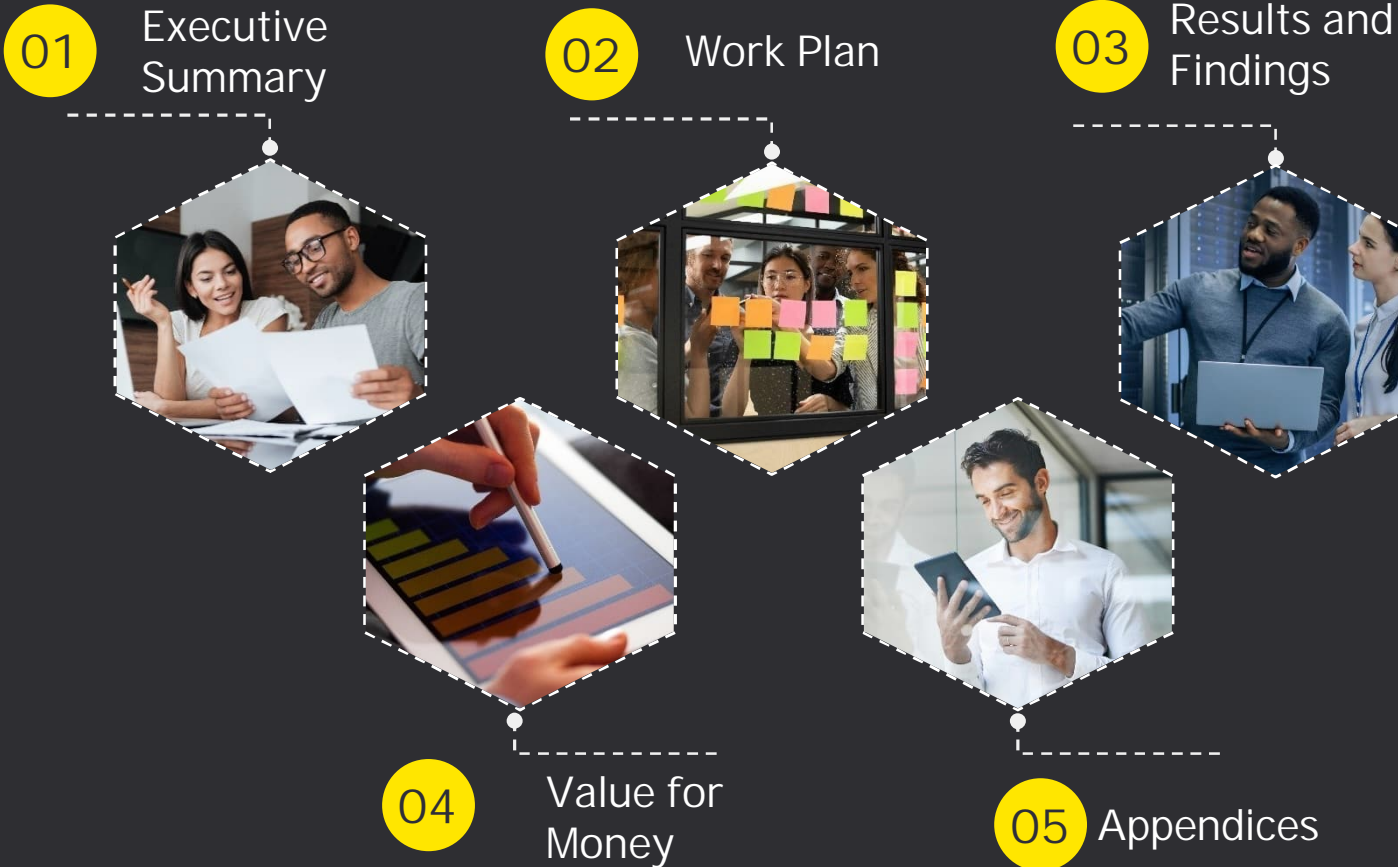
Caroline Mulley

Partner

For and on behalf of Ernst & Young LLP

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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. 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 (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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. 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 – System wide and local context

Context for the audit – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- Lack of capacity within the local authority financial accounting professions
- Increased complexity of reporting requirements within the sector
- Lack of capacity within audit firms with public sector experience
- Increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed

DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop and implement measures to clear the backlog. Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI), together with the updated NAO Code of Audit Practice 2024 and the Local Authority Reset and Recovery Implementation Guidance, which have all been developed to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

As a result of the system wide implementation of backstop dates we anticipate issuing a disclaimed audit opinion on the Council's 2022/23 accounts. The proposed disclaimer of the Council's 2022/23 accounts impacts the audit procedures that we have planned and undertaken to gain assurance on the 2022/23 financial statements and the form of the audit report.



Executive Summary – Local context

Local Background and Context

The position at this Council has developed over the past few years resulting in unaudited financial statements for 31 March 2023.

The main reasons for the Council's financial statements not being audited and signed to date include:

- ▶ During the pandemic Council staff were required to prioritise the maintenance of key processes and service delivery and therefore had less capacity to respond to the audit requirements, remote working and illness in both the Council and EY audit teams results in slower progress with the audit.
- ▶ Following the pandemic the Council teams were working on current year priorities and the EY team were available at times when the finance team were dealing with current priorities e.g. budget preparation.
- ▶ There were a number of new technical issues and challenges to address during this period, including accounting for infrastructure assets and taking into account the updated pension fund valuations.
- ▶ As a result of the above, the 2021/22 audit was only concluded in April 2024.
- ▶ The Council has been in a position to present draft statements of account for audit within the regulatory timeframe in recent years.
- ▶ The post pandemic timelines resulted in audit teams trying to move delayed audits onto completion, which used a significant amount of our finite audit resource leading to a lack of capacity to move onto the 2022/23 audit year.
- ▶ As a result, with acknowledgement of the wider reset proposals to move to the most recent year of audit (which at that point in time was 2023/24), we concluded it was not practical to schedule the 2022/23 audit. Therefore, for the reasons listed above we did not have the audit resource necessary to perform the 2022/23 audit for the Council before the backstop date.



Executive Summary – Report structure and work completed

Report structure and work completed

This report covers the work we have completed to meet the requirements of the International Standards on Auditing (UK&I), (ISAs) and the Local Audit Reset and Recovery Implementation Guidance (LARRIGs) along with the National Audit Office Value for Money Code (NAO VFM Code). It has been split into the following sections.

Section 1 – Executive Summary – this section setting out the national and local context and the structure of our report.

Section 2 – Work Plan – We have completed the following planning tasks:

- ▶ Required independence procedures.
- ▶ Set a level of materiality.
- ▶ Issued letters of inquiry to Management, Those Charged with Governance, the Head of Internal Audit and the Monitoring Officer.
- ▶ Updated our understanding of the business, including through review of responses to inquiry letters, minute review and in discussion in our internal planning meeting,
- ▶ Identified significant, inherent and other areas of higher risk or focus.
- ▶ Considered any other matters that may require reporting to regulators or which may result in a modification to the audit report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 3 – Results and findings - Work completed to issue the disclaimer, findings and results:

- ▶ Review of the financial statements.
- ▶ Consideration of any matters that came to light during our planning and review procedures in relation to laws and regulations, fraud, related parties, litigation and claims, significant changes to contracts and systems, service organisations, which we report as appropriate.
- ▶ Reporting on any other matters that may require the use of the auditor's powers, formal reporting or a modification to the auditor's report e.g. non-compliance with laws and regulations, objections, significant weaknesses in arrangements for value for money, any matters that may result in the use of the auditor's powers.

Section 4 – Value for money reporting

- ▶ The value for money report covering the year to 31 March 2023.

Section 5 - Appendices



02 Work Plan

Work Plan – Audit Scope

Audit scope

This Completion report covers the work that we performed in relation to:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 4.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

Given that Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 13 December 2024 by which date we are required to issue our opinion on the financial statements, we have considered whether the time constraints imposed by the backstop date mean that we cannot complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK).

This decision is in line with ISA 200: Failure to Achieve an Objective 24.

If an objective in a relevant ISA (UK) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (UK), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (UK) 230 (Revised June 2016).4 (Ref: Para. A77&A78)

Taking the above into account, for the years ended 31 March 2023 we have determined that we cannot meet the objectives of the ISAs(UK) and we anticipate issuing a disclaimed audit report.

Work Plan - Materiality

Materiality

Planning materiality

£5.7m

Materiality for y/e 31 March 2023 has been set at £5,653,580, which represents 2% of 2023 gross expenditure on provision of services.

Performance materiality

£2.8m

Performance materiality for y/e 31 March 2023 has been set at £2,826,790, which represents 50% of planning materiality.

Audit differences

£282k

We will report all uncorrected misstatements relating to the primary statements greater than £282,679 for y/e 31 March 2023. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

In order to ascertain the significance of issues in the draft financial statements we have set materiality based on the 2022/23 audit year. We have considered updating this materiality for any key changes or known factors from that year of which there are none. We determined that our audit procedures would be performed using a materiality of £5.7m. This level of materiality remains appropriate for the actual results for the financial year.

These materiality levels have been set based on the Darlington Borough Council financial statements - we have not considered group materiality. These levels are being used to assess our response to any issues identified in the Council's financial statements.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the year 2022/23

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	31 March 2023	Fraud risk/ Significant risk	No change in risk or focus	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.
Misstatements due to fraud or error	31 March 2023	Fraud risk	No change in risk or focus	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. We identify and respond to this fraud risk on every audit engagement. We perform mandatory procedures regardless of specifically identified fraud risks.
Valuation of investment Property	31 March 2023	Inherent risk	No change in risk or focus	The fair value of Investment Properties (IP) represent significant balances in the Council’s accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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.
Valuation of land and building held at depreciated replacement cost and existing use value	31 March 2023	Inherent risk	No change in risk or focus	The value of land and buildings held at depreciated replacement cost 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, and have revisited our risk assessment for these assets.

Work Plan – Significant, inherent and other risk areas

The following ‘dashboard’ summarises the significant accounting and auditing matters identified as part of our planning work. It seeks to provide Those Charged with Governance with an overview of our initial risk identification for the 2022/23.

Audit risks and areas of focus

Risk/area of focus	Applicable year	Risk identified	Change from PY	Details
Pension liability valuation	31 March 2023	Inherent risk	No change in risk or focus	<p>The pension liability is the most significant liability on the Council’s balance sheet and is calculated through use of a number of actuarial assumptions. A small movement in these assumptions can have a material impact on the balance sheet.</p> <p>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 experts and the assumptions underlying fair value estimates.</p>
Group accounts	31 March 2023	Inherent risk	No change in risk or focus	<p>The Council is working in conjunction with Esh Homes Limited to develop six (four in the prior year) housing projects in the borough. The Council owns a 50% share in these projects, which are at various stages of completion. It is expected that these projects will deliver in excess of £3.6 million of pre-tax profits by 2026/27.</p> <p>The CIPFA Code requires the Council to consider both qualitative and quantitative factors of its joint arrangements to assess if group accounting is required to reflect the Council’s share of the joint ventures in the financial statements.</p>

Work Plan - Independence

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Work Plan - Independence

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Caroline Mulley, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. At the time of writing the report, the final fee variation for the 21/22 audit has been recently agreed and invoiced in October and so is not considered to be long outstanding.

We are currently undertaking a non-audit service re assurance over housing benefit, we believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

The services relating to housing benefit, is not prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval.

In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0.4:1. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Work Plan - Independence

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your company. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

EY Transparency Report 2024

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 period ended 28 June 2024 and can be found here: [EY UK 2024 Transparency Report | EY - UK](#)



03 Results and findings



Results and findings

Status of the audit

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

- ▶ Completion of subsequent events procedures;
- ▶ Receipt of a signed management representation letter

Given that the audit process is still ongoing, we will continue to consider existing and new information which could influence our final audit opinion.

Value for Money

Our value for money (VfM) work is complete and reported in Section 4 of this report. We did not identify any risks of significant weaknesses in arrangements during our planning procedures. Having completed the planned VfM procedures we did not identify a significant weakness. See Section 4 of the report for further details.

Audit differences

The Audit Committee should ensure that in approving the Statement of Accounts, that all sets cast correctly, all prior year comparatives agree to the final set of prior year Statement of Accounts. The Audit Committee should also seek explanations for any material variances between years to fully understand the Statement of Accounts and that unadjusted differences from the prior year audited accounts, have been reflected within the 2022/23 financial statements to the extent that they are applicable.

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.

The Comptroller and Auditor General has confirmed that he plans to issue his opinion and certificate on the 2022-23 Whole of Government Accounts on 22 November 2024. Given we expect to issue our 2022/23 audit report after that date but before the statutory backstop of 13 December 2024, we therefore expect to be able to certify completion of the audit as part of our final 2022/23 audit report.

We have not received any objections to the 2022/23 accounts from members of the public.



Results and findings

Other powers and duties

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

Areas of audit focus

In our Work Plan (set out in Section 2 above) we identified a number of key areas of focus for our audit of the financial report of Darlington Borough Council. We concluded we would disclaim the audit and therefore have not completed detailed audit testing on these areas but instead have reported any matters that came to light from the work we did complete. 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.

Control observations

During the audit, we did not identify any significant deficiencies in internal control.

Independence

Further to our review of independence in section 2 of this report we have not identified any issues to bring to your attention..



Results and findings

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 other matters to report.

Results and findings

Summary of unadjusted differences

In addition, we highlight the following misstatements identified in the audit of the 2021/22 financial statements which were not corrected by management.

Uncorrected misstatements 31 March 2022 (£'000)	Effect on 2021/22:		Net assets: (Decrease)/Increase				Reserves Debit/ (Credit)
	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)	
Audit differences (Council)							
Known differences:							
<ul style="list-style-type: none"> PFI Liability (This matter has been reported in prior years and the above reflects the current year unwind.) 		(141)				(1,115)	1,256
<ul style="list-style-type: none"> Overstatement of L&S Management Team Debtor – Note A 			(359)				359
<ul style="list-style-type: none"> Share of Joint Ventures' 2018/19 profits incorrectly recognised as a debtor in the single entity - Note A 			(338)				338
<ul style="list-style-type: none"> Overstatement of housing benefits debtor XX26 - difference between the sub-ledger and the amounts included in the financial statements 		280	(280)				
<ul style="list-style-type: none"> 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			
<ul style="list-style-type: none"> Evidence to support the Dolphin Centre Income was inaccessible due to these documents being placed into storage – Note B 		285	(285)				
<ul style="list-style-type: none"> Overstatement of Prepayments – Note C 		254	(254)				
Judgemental differences:							
<ul style="list-style-type: none"> 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:							
<ul style="list-style-type: none"> 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		
<ul style="list-style-type: none"> 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 2021/22 uncorrected misstatements – Note C	(1,957)	678	(4,558)	1,957	3,042	(1,115)	1,953

Results and findings

Summary of unadjusted differences cont'd

We have reported the prior year uncorrected misstatements on the previous page of this report. Please note that except for the misstatements discussed in Note A and B below, management have not corrected the remaining misstatements in the current year. Further, we have not audited the adjustments made and did not confirm if the errors existed in 2022/23. There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2023.

Note A: Management have indicated that this error has been corrected in the 2022/23 financial statements. There was no impact on the Comprehensive Income and Expenditure Statement.

Note B: The Council maintains the same retention policies for holding information and the amount in the misstatement was not significant. However, the Council committed to take appropriate steps in providing information which is held in storage where it will have a significant or material impact on the accounts.

Note C: This audit difference was below the Group's 2021/22 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 was -£4.304m and £0.424m.

Results and findings - Audit Report

Draft audit report

Our opinion on the financial statements

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

Disclaimer of opinion

We were engaged to audit the financial statements of Darlington Borough Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2023. 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 40 to the Council financial statements and the Group Accounts Introduction, Joint Venture and Group Accounting policies including a summary of significant accounting policies
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 7
- ▶ 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 2022/23 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

We do not express an opinion on the accompanying financial statements of the Group and the Council. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) which came into force on 30 September 2024 requires the accountability statements for this financial year to be approved not later than 13 December 2024.

We completed the audit of the 2021/22 financial statements in April 2024 and issued our audit opinion on 12 April 2024.

The backstop date and the wider requirements of the local audit system reset, meant we did not have the required resources available to complete the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the 2022/23 financial statements. Therefore, we are disclaiming our opinion on the financial statements.

Matters on which we report by exception

Notwithstanding our disclaimer of opinion on the financial statements, performed subject to the pervasive limitation described above, we have nothing to report in respect of whether 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 report to you if:

- ▶ 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)

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

- ▶ 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 2023.

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 page 16, the Group Director of Operations is responsible for the preparation of the Statement of Accounts, which includes the Group and Council, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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.

The Council 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 responsibility is to conduct an audit of the Group and the Council's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matter described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group and the Council 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 Code of Audit Practice 2024 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in January 2023, as to whether Darlington Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Darlington Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Results and findings - Audit Report (cont'd)

Our opinion on the financial statements

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (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.

Certificate

We certify that we have completed the audit of the accounts of Darlington Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 (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
Date

The following footnote does not form part of our Auditor's Report.

Additional information related to the disclaimer of opinion is set out in our Completion Report for Those Charged with Governance dated 25 November 2024, available on the Authority's website, which includes further explanations about the implementation of the statutory instrument which led to the disclaimer of our opinion on the financial statements.



04 Value for Money



VFM - Executive Summary

Purpose

Auditors are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's opinion on the financial statements. In addition, auditors provide an annual commentary on arrangements contained in our Interim VFM Report dated 12 July 2024. In doing so, we comply with the requirements of the 2020 Code of Audit Practice (the Code) and Auditor Guidance Note 3 (AGN 03).

The purpose of this commentary is to explain the work we have undertaken during the period 01 April 2022 to 31 March 2023 and highlight any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2022/23. The NAO has confirmed that where VFM reporting is outstanding for more than one year, the auditor can issue one report covering all years.

The Department for Levelling Up, Housing and Communities (DLUHC) has worked collaboratively with the Financial Reporting Council (FRC), as incoming shadow system leader, and other system partners, to develop measures to address the delay in local audit. As part of the NAO consultation issued on 8 February 2024, there was a proposal to reduce the scope of the VFM reporting up to and including the 2022/23 financial year. However, the consultation stated that where auditors had begun or already undertaken work that no longer fell under the reduced scope, they may still report on it in accordance with Schedule 4. We continued to report VFM in line with our existing responsibilities as set out in the 2020 Code to ensure a smooth transition to the 2023/24 audit year when auditors are required to meet the full Code reporting responsibilities.

The report sets out the following areas which have been assessed up to the point of issuing this final report:

- Any identified risks of significant weakness, having regard to the three specified reporting criteria;
- An explanation of the planned responsive audit procedures to the significant risks identified;
- Findings to date from our planned procedures; and
- Summary of arrangements over the period covered by this report.

We have summarised our final view of the value for money arrangements as part of in this report.



VFM - Executive Summary (continued)

Risks of Significant Weakness

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Monitoring Officer, s151 Officer and Audit Committee;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements.

As a result, we have no matters to report by exception.

VFM - Executive Summary (continued)

Reporting

The following commentary summarises our understanding of the arrangements at the Council based on our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2022/23. We include within the VFM commentary below the associated recommendations we have agreed with the Council.

Interim VFM Report dated 12 July 2024 set out the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Auditor's Annual Report and have been updated for 2022/23.

In accordance with the NAO's 2020 Code, we are required to report a commentary against the three specified reporting criteria. The table below sets out the three reporting criteria, whether we identified a risk of significant weakness as part of our planning procedures, and whether, at the time of this report, we have concluded that there is a significant weakness in the body's arrangements.

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 weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness 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 weakness identified

Value for Money Commentary

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

No significant weakness identified

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 identify any pressures/savings at an early stage and these are presented to Cabinet on a quarterly basis with appropriate action taken. The Medium-Term Financial Plan (MTFP) and Revenue Budget Monitoring (RBM) process also involves portfolio holders in discussions. Management also proactively monitors and amends the budget where considered necessary. Furthermore, the council is also in the process of undertaking a Minimum Service Level (MSL) exercise to look at the services we deliver which again will contribute towards managing financial pressures going forward.

Savings and pressures are identified in a 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 commissions external consultants (Local Government (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. The MSL exercise and service reviews are being undertaken to review how services are delivered and look at reducing costs and challenging expenditure. The Council are also looking for innovative ways to provide services differently and looking at ways to increase/generate income from sources other than Council Tax, Business Rates, grant income and as well as from other alternative revenue sources.

The Council's revenue reserves at the end of 2022/23 as per draft financial statements, before any updates relating to adjustments made in the final 2021/22 accounts, were £23.905m, which is £0.508m higher than the 2023-2027 MTFP planned opening balance of £23.397m. This improvement in reserves included a brought forward amount of £0.384m from 2021/22 and a net underspend of £0.124m in overall outturn position during the year. This is an improved position from the 2021-25 MTFP projected year end position of £22.533m.

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. As per 2023/24 draft financial statements, the general reserve balance amounted to £18.138m (including the Joint Ventures' reserves), which represents an improvement from the projected reserves balance by £1.754m. The Council anticipated that 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 have a direct impact on 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.

Value for Money Commentary (continued)

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

No significant weakness identified

The Council maintains a corporate risk register. The risk register contains the risks which are influenced by external factors and arise from outside the Council and internal risks which can stem from normal operations, which may impact upon the achievement of the Council's priorities. The risk register is reviewed by Assistant Directors constantly for the position on the matrix and reported through Audit Committee on a half yearly basis. In order to arrive at an overall risk rating, a risk matrix is used based on the impact of the risk and the likelihood of it materialising. Once the risk rating is determined an action plan identifying further mitigating action is put in place.

The risks identified in the 2022/23 are in line with our expectations of both the Council's and the sector's risks, many of which relate to, the Covid-19 pandemic, and changes in service 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. Furthermore, the Council have a revenue budget management process in place to support the sustainable delivery of services as well as capital expenditure monitoring reports with financial commitments and business case reviews which are taken to DLT/SLT. These support sustainable delivery in accordance with strategic and statutory priorities.

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 was previously embedded with the investment strategy plan being part of the Treasury Management Strategy (TMS). The Capital Strategy is now separate and just goes to Council. From 2022/23 the Capital MTFP was merged into the main MTFP report. The TMS is presented to Audit Committee, Economy & Resources Scrutiny, Cabinet & Council to be scrutinised by Members. The main MTFP is presented to Cabinet and Council. The MTFP, Capital Strategy & TMS are interlinked, and all approved by Council at the same time. Finance & Legal sign off all reports after the Director/Assistant Director. Chief Officers Board (COB) which consists of all the assistant directors of the Council meet on a weekly basis and all 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 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 are discussed and agreed and to share best practice ensuring some form of consistency across the Tees Valley. The Assistant Director of Resources also meets with their Tees Valley counterparts which helps to enforce and support sharing best practice and consistency. There are also lots of meetings with other external counterparties across the services, e.g. Tees Valley Chief Accountants group and a regional HR group. All of these help to ensure financial plans are consistent with other plans where relevant.

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.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services

Value for Money Commentary (continued)

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

No significant weakness identified

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 a half yearly 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, this includes an Audit dashboard where each AD and Director can access the audit results in their areas and reported to Audit Committee on a quarterly basis. The council also have policies to protect against fraud, e.g. whistleblowing and adopt the Academy 10 training units which all staff are required to undertake. Compliance with Academy 10 is also reported to AD's for action.

The Council starts its budget setting cycle early (July) with Finance officers liaising with service managers and reviewing the previous year's 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 changes to services 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 February before going to full Council in February for approval and subsequent implementation. The continuous RBM that the Council carries out also contributes to the budget cycle as most pressures/savings or potential amendments to the MTFP will have been identified at an early stage. Cabinet are also kept in the informed of the contents of the MTFP before the formal report goes to Cabinet.

The Council does continuous budget management with the aid of an electronic budget management system (FMS) that automatically sends out budget management reports on spend/budget/commitments etc. every month on email to each budget holder. This is completed by the budget manager with support from the finance team. 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 receiving financial advice 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 COE/Chief Officer's Board (COB) and AD's have monthly briefings with the relevant portfolio holder to update them of the financial situation. These reports are also on the Agenda of Economy & Resources Scrutiny Committee every quarter who scrutinise the budget position and pass comments on to Cabinet. The reports then go to Cabinet every quarter to enable Members to analyse the ongoing financial situation. Budget managers have responsibility in their job descriptions and will discuss their budgets with their manager/AD.

Furthermore, the Audit Committee meet on a quarterly basis to review and challenge the Council's governance, audit and treasury management activities and policies. Audit committee will also review and challenge the Council's Annual Statement of Accounts. 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.

Value for Money Commentary (continued)

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

No significant weakness identified

The Council also has a scheme of delegation for decision making. Matters are considered by management teams (DLT/SLT) and also by COE/COB. The Constitution shows the reporting cycle. Finance provide assistance/advice (as well as legal, procurement etc) on all Cabinet reports to ensure members have all the information needed for the decision.

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).

The Council published their draft 2022/23 financial statements for audit on the 03 July 2023 and made available for inspection between 03 July and 14 August 2023 in line with the Audit and Accounts regulations. Under the Accounts and Audit Regulations 2015, the Council is required to start the inspection period within the first 10 working days of June. The Council issued a notice of delay for inspection citing valuation issues that arose during 2021/22 audit as reason. As the inspection period did not commence on or before 10 June 2023, the Council was in breach of these regulations. Furthermore, we have noted that the publication of draft 2023/24 financial statements was also delayed and published on 21 June 2024. The reason for the delay was due to the delayed receipt of external valuations. We have noted similar breaches in the regulations (i.e. late publication of the draft financial statements) for a number of councils across the sector due to various reasons.

We also confirm that the 2022/23 draft financial statements were arithmetically correct, agreed to the data in the general ledger, and prepared in line with the content required by the CIPFA Code. We take note that the draft 2022/23 financial statements was not reissued to reflect the adjustments from the audited 2021/22 financial statements. This was due to the delay in finalisation of the 2021/22 financial statements and the then impending reporting requirements for the draft 2023/24 financial statements publication. The Council has also carried out bank reconciliations during the year. Therefore, appropriate arrangements for financial reporting were in place during 2022/23.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control, and this is documented in this Annual Governance Statement. The review of effectiveness is informed by an Assurance Framework, which includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.

The Annual Governance Statement was published on 30 June 2023 and thereby made available for inspection alongside the financial statement. Under the Accounts and Audit Regulations 2015 (Section 15, Para. 2), the Council is also required to include a copy of Annual Governance Statement during the inspection period and must be published within the required period set by the regulation. As the Annual Governance Statement was not made available until end of June 2023, the Council was in breach of these regulations. Similarly to the late publication of the draft financial statements above, we have noted similar breaches in the regulations (i.e. late publication of the Annual Governance Statement) for a number of councils across the sector due to various reasons.

Value for Money Commentary (continued)

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

No significant weakness identified

While we are content that appropriate arrangements for preparation of financial statements and Annual Governance Statement were in place during 2022/23 to support the Council's governance arrangements, we recommend that the Council ensures that future financial statements and Annual Governance Statement is published in accordance with the requirements stipulated in the Accounts and Audit Regulations 2015.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to make informed decisions and properly manage its risks.

Value for Money Commentary (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

No significant weakness identified

Management does benchmarking with other local authorities within the Tees Valley area 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. Performance improvements are reported through Scrutiny Committees and there is a performance clinic held with AD's/Directors. Performance teams review performance with managements.

The Council is constantly striving to improve their services by embracing and identifying best practice. Whilst formal oversight and input from the Department for Education (DfE) and Leeds City Council ended in 2022, the Council have continued to develop the programme which informs the key strategic aims for the service for 2023/24. The Council also has peer reviews to help identify direction of travel and where appropriate work with strategic partners to help identify areas for improvement. Performance teams review performance with managements. The Council is also externally inspected by Ofsted and work with regional and Tees Valley groups such as the Tees Valley Director of Resources group to monitor and benchmark our performance and identify areas for improvement.

The Council have 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. There are also annual reviews of significant partnerships led by the Darlington Partnership Director based upon the completion of an annual review form and provision of evidence demonstrating the governance arrangements have been adhered to. The report to Audit Committee provides evidence on performance and that governance arrangements in place are being adhered to. The toolkit also allows for identification of high-level concerns of the significant partnership which can therefore be monitored closely. 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, the public 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 also consult on other potential service changes which may not be included within the MTFP.

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 AD's) 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 Council also has a set of Contract procedure Rules (issued in accordance with s135 of the Local Government Act 1972) which are intended to promote good purchasing practice and public accountability, deter corruption and assure value for money is obtained in the use of public funds. Officers responsible for purchasing or disposal must comply with these contract procedure rules. Procurement also provide an annual list of contract up for renewal and these are agreed by Cabinet. Procurement also provide advice to managers on procurement related matters

Value for Money Commentary (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 (continued)

No significant weakness identified

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 report raised 6 recommendations and on 11 October 2022, the Council has agreed to develop and publish an action plan and an update on Cabinet's recommendations was presented on 8 November 2022. The recommendation and respective actions plans are summarised below:

- Develop a strategic framework to ensure that economic growth is linked to tackling the challenges of inequality and deprivation in Darlington.
 - Action Plan: The Council will continue to work with partners to develop and deliver the Levelling Up Darlington (LUD) Action Plan. The LUD plan directly supports two of the key priorities within the Council Plan, these being 'Working with communities to maximise their potential' and 'Supporting the most vulnerable in the borough'. A performance framework associated with the LUD plan will be used to monitor its delivery and impact.
- Undertake further work to ensure the whole of the organisation understands their role in Council priorities, including making the link between economic growth and improving opportunities for the most vulnerable in the Borough.
 - Action Plan: The annual service planning process requires managers to consider how activities within their service areas contribute to the delivery of the priorities within the Council Plan. An internal communications plan will also be developed before the end of the financial year which will highlight links between economic growth and improving opportunities for the most vulnerable. New members are offered an induction programme, with additional training, briefings and support offered to all members throughout their term in office.
- Establish a refreshed strategic partnership for Darlington which can engage all partners in the delivery of the Levelling Up Darlington Plan, including the business community and the community & voluntary sector.
 - Action Plan: Prior to Peer Review, there's already the creation of the Public Sector Executive Group (PSEG) consisting of senior representatives from local and sub regional public bodies who have the interest and ability to have a significant positive impact in the delivery of a shared vision (Levelling Up Darlington). Also, a newly established overarching 'Stronger Communities Board' (SCB) had its inaugural meeting in November 2022. Where possible, this will include board level representatives from the public, voluntary and community, and business communities.
- Further lever the Council's strategic influence in the region
 - Action Plan: Kept s numerous formal and informal relationships which include roles within the Tees Valley Combined Authority, the Association of North East Councils (ANEC), and arrangements with various health related organisations and blue light services. The Council also established an active role within the new local NHS Integrated Care Board (ICB).

Value for Money Commentary (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 (continued)

No significant weakness identified

- Review the assumptions in the MTFP - particularly the reliance on reserves over the medium term - in the light of rising costs, increased demand for social care services and greater economic uncertainty.
 - Action Plan: The MTFP is a standing item on the weekly Chief Officers Executive and Chief Officers Board meetings, and cabinet members are regularly briefed on developments. The current year budget is reviewed by finance officers and budget managers monthly with any issues reported through departmental management teams and chief officers as appropriate. Formal quarterly budget reports, which identify the current budget position, trends and future projections are reported to Cabinet. Finance staff and budget holders also reviewed the budgets for the next 4 years of the MTFP in advance of the scheduled planning activities between October and February which will involve officers at various levels across the council. The planning activities explore established and innovative approaches for income generation and cost reduction.
- Develop, with partners and local people, a compelling narrative as to how economic growth brings benefits to residents and communities.
 - Action Plan: The Council started to develop an economic growth narrative with key stakeholders and an associated action plan with performance measures will be created to ensure the message is clearly communicated to and understood by the target audiences. This also supports the action plan for the second recommendation discussed earlier. Furthermore, the narrative will be developed in conjunction with partners within the refreshed strategic partnership and their endorsement and support will be sought to help amplify the narrative.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



05 Appendices

Appendix A – Management representation letter

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

xx November 2024

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 audits of the (consolidated) financial statements of Darlington Borough Council ("the Council") for the year ended 31 March 2023. 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 present fairly, in all material respects (or 'give a true and fair view of') the financial position of Darlington Borough Council and of the group as of 31 March 2023 and of its financial performance and its cash flows for the period ended 31 March 2023 in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 parent Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 parent Council, the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 parent Council financial statements. We believe the consolidated and parent 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 parent Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 financial statements.

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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 2022/23 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) for the Group and for the Council that are free from material misstatement, whether due to fraud or error.
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 parent Council financial statements taken as a whole.
We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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

1. We acknowledge that we are responsible to determine that the Group and Council's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of a system of internal control to prevent and detect fraud and that we believe we have appropriately fulfilled those responsibilities.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and parent 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 improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated and parent Council financial statements
 - Related to laws or regulations that have an indirect effect on amounts and disclosures in the consolidated and parent Council financial statements, but compliance with which may be fundamental to the operations of the Group and Council's business, its ability to continue in business, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others
 - 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.

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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 are reflected in the consolidated and parent Council financial statements.
3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: **[list date]**.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period 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 parent 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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 parent Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From 11 April 2024 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, 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 effect on the consolidated and parent 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.

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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 parent 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 parent Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 40 to the consolidated and parent 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 subsequent to period end which require adjustment of or disclosure in the consolidated and parent 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 parent Council, subsidiary undertakings and associated undertakings.

H. Other information

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

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 parent financial statements.
2. The key assumptions used in preparing the consolidated and parent financial statements are, to the extent allowable under the requirements CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (as amended by the Update to the Code and

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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. 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.
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.

K. Reserves

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

L. 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.

M. 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.

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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.

N. 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 2022/23 (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.

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 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, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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.

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Creditor Accruals Estimate

1. We confirm that the significant judgments made in making the creditor accruals estimate have taken into account all relevant information 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, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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,

Group Director of Operations
Elizabeth Davison

Chair of the Audit Committee
Councillor Roz Henderson

Appendix B – Fees

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

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

The original fees for these years were based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment
- ▶ The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

Due to the reset, the above clearly will not be achieved and we will be liaising with PSAA Ltd to discuss and agree fees.

	Current Year	Scale fee	Prior Year
	£	£	£
Total Fee – Code Work – Note 1	90,818	90,818	71,813
Scale fee variation	TBC	-	126,261
Total audit	TBC	90,818	198,074
Other non-audit services not covered above (Housing benefits)	TBC	N/A	41,150
Total other non-audit services –Note 2	TBC	N/A	41,150
Total fees	TBC	90,818	239,224

All fees exclude VAT

As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 audit.

Note 1 - PSAA Ltd, in line with the joint statement issued DLUHC (as at that date) and the FRC, is responsible for the determination of the final audit fee in respect of 2022/23.

In doing so, PSAA Ltd will apply the principles that where auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, including where their procedures were necessary to conclude the audit by the legislatively imposed backstop date by way of a modified or disclaimed opinion and the body is due to pay the applicable fee.

Note 2 - in prior year we also performed procedures on the Housing Benefits Subsidy Certification, Teachers' Pension and Pooling of Capital Receipts. For 2022/23, we are not engaged to perform these procedures for Pooling of Capital Receipts.

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▶ The planned scope and timing of the audit ▶ Any limitations on the planned work to be undertaken ▶ The planned use of internal audit ▶ The significant risks identified <p>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</p>	This Completion report for Those Charged with Governance
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Any other matters considered significant 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

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

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

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

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	This Completion report for Those Charged with Governance
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	This Completion report for Those Charged with Governance
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	This Completion report for Those Charged with Governance
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	This Completion report for Those Charged with Governance

Appendix C – Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	This Completion report for Those Charged with Governance
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	This Completion report for Those Charged with Governance
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	This Completion report for Those Charged with Governance
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	This Completion report for Those Charged with Governance

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and
Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

Appendix D - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Appendix E – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- assign responsibilities clearly to staff with the appropriate expertise and experience;*
- provide necessary resources to enable delivery of the plan;*
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.

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