

# Annual Governance Report

Chorley Borough Council

Audit 2008/09

Date September 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

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Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	7
<b>Use of resources</b>		
Use of resources judgements	Yes	9
Arrangements to secure value for money	Yes	9

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## Audit opinion

- 1 My 2008/09 audit is substantially complete and I expect to issue an unqualified opinion by 30<sup>th</sup> September 2009.

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## Financial statements

- 2 This is the first year that the closedown arrangements have been the responsibility of the Council's shared service arrangement with South Ribble Borough Council. We worked closely with officers in conducting our audit and the new arrangements for producing your accounts worked well.
- 3 The main issues I have identified in carrying out my review relate to the receipt of late guidance on the likely recoverable amounts in respect of the Chorley's investments in Icelandic banks. Other issues identified include a classification error within the creditors disclosure note and the omission of a note analysing general government grants. None of the changes made have any impact on the Council's reported outturn position.

### Use of resources

- 4 The Audit Commission has recently undertaken its Use of Resources assessment at Chorley. The assessment judges how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.
- 5 This is the first year of the Audit Commission's new methodology for Use of Resources and the Council has been assessed as performing well. In particular, we noted that you had enhanced arrangements in relation to:
  - managing your workforce,
  - understanding your costs and achieving efficiencies, and
  - promoting data quality and the way you use information.

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### Value for Money

- 6 I have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of resources against the 8 criteria specified by the Audit Commission. I have concluded that your arrangements are adequate and propose issuing an unqualified conclusion on the Council's value for money arrangements.
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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**7** I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjusted amendments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- take note of the VFM Conclusion and Use of Resources score. (Appendix 4)

# Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before the financial statements are authorised for issue.

## Opinion on the financial statements

- 8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Key areas of judgement and audit risk

- 9 I plan and perform my audit so as to obtain all the information I feel is necessary to give sufficient evidence and assurance that the Council's financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. Based on guidance provided by the Audit Commission the calculated materiality level for Chorley Borough Council for 2008/09 is £921,000.
- 10 My audit of the financial statements is risk based. Most risks are inherent within any set of financial statements in terms of whether they are accurately presented and whether they report appropriately the relevant period the accounts relate to. I also consider whether there are any specific risks which I need to take account of in performing my audit. In planning my audit I have identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1** Key areas of judgement and audit risk

Issue or risk	Finding
The Council's investment of £2m in Icelandic banks may not be accounted for correctly. There is a risk that the accounts may be materially misstated if the correct accounting treatment is not followed.	The Council has correctly followed recommended guidance on the accounting treatment. The accounts have also been amended to take account of late guidance issued after the date that the accounts were approved.
Fixed asset valuations – the downturn in the economic climate has resulted nationally in a downward fall in fixed asset valuations. As external auditors we need to satisfy ourselves that the Council has	The Council did consider the impact of the economic downturn in determining its asset values.

## Financial statements

Issue or risk	Finding
correctly accounted for and undertaken the relevant revaluations to reflect the current economic climate.	

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### Errors in the financial statements

- 11** I am required to report to you all misstatements that I have identified during the course of my audit, other than those that are clearly of a trivial nature. In recent years trivial items have been defined as those that are below 10% of materiality i.e. £92,100.
- 12** The Audit Commission has updated its guidance for 2008/09 such that trivial items are now defined as below 1% of the materiality level. This means that any errors or adjustments to the financial statements above £9,210 are now considered to be non trivial and should be reported to those charged with governance. Further details are provided in Appendix 2. Also, all non trivial errors have been amended by management.

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### Accounting practice and financial reporting

- 13** My review also considers the qualitative aspects of your financial reporting. As a result of my audit some relatively minor amendments have been made to the accounting policies and notes improving the presentation and completeness of the accounts.
- 14** The Council's Building Control Account (Note 6 to the Statement of Accounts) revealed an in year deficit. The requirements of the Building (Local Authority) Charges Regulations 1998 requires that full recovery of the cost of providing the service should be achieved over a three year continuous period. The Council has failed to do this over the three year period ending 31 March 2009.
- 15** The bad debt provision for NNDR in the Collection Fund has been based on an arrears figure which is £77,264 higher than the figure for NNDR arrears included in the debtors total on the balance sheet. This is because system reports with different parameters are used to compile these figures. To be consistent the two figures should be derived from the same base.
- 16** The workings for the Cash Flow statement included a balancing figure (£289,743) within the increase in creditor's line. This does not have a material impact on the accounts and to ensure that the statement can be reconciled in the future without the need for balancing items management are reviewing the robustness of the current procedures.

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### Internal control environment

- 17** We have reviewed the adequacy of your internal control arrangements and have not identified any significant issues which we need to report to you.

- 18** During 2008/09 we undertook a detailed review of Chorley's Internal Audit function which we are required to undertake at least every three years. We concluded that Internal Audit meets the requirements of the CIPFA Code of Practice and provides an effective service to management at the Council. We are able to rely on the work of Internal Audit where their work is relevant to our Code of Practice objectives.

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### Letter of representation

- 19** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.



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# Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 20** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission’s current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 21** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 22** The Council’s use of resources theme scores are shown in Table 2 below. The authority may choose to ask the Audit Commission to review these scores and they are therefore still provisional at this stage
- 23** The key findings and conclusions for the three themes, and the underlying KLOE will be subject to a more detailed report which will be presented at the next Audit Committee meeting.

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**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	4

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## Value for money conclusion

- 24** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 4.

## Appendix 1 – Independent auditor’s report to Members of Chorley Borough Council

- 25** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

# Appendix 1 – Independent auditor’s report to Members of Chorley Borough Council

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## Independent auditor’s report to the Members of Chorley Borough Council

### Opinion on the financial statements

I have audited the Authority’s accounting statements and related notes of Chorley Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, Statement of Movements on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Chorley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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### *Respective responsibilities of the Chief Finance Officer and auditor*

The Chief Finance Officer’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered,

whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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### ***Basis of audit opinion***

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### ***Opinion***

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Authority’s Responsibilities***

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

#### ***Auditor’s Responsibilities***

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its

## Appendix 1 – Independent auditor’s report to Members of Chorley Borough Council

use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Chorley Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Fiona Blatcher  
Engagement Lead  
Aspinall House  
Aspinall Close  
Middlebrook  
BOLTON, BL6 6QQ

September 2009

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 3 Adjustments made to the Financial Statements**

Issue	Impact on the accounts
<p>At 31/3/09 the Council had £2m frozen in the Icelandic Bank Landsbanki Island pf. At the date that the accounts were adopted by the Audit Committee the Council had correctly accounted for these investments in line with the latest guidance.</p> <p>However, in September 2009 further revised guidance was issued which has now been reflected within the accounts.</p>	<p>The impact of the later guidance was to increase the Council's impairment charge by £94,273. This does not impact on the Council's overall outturn position as it is an accounting entry which is reversed out through the Statement of Movement on the General Fund Balance to prevent any impact on council tax at this stage.</p>
<p>Some "Other Local Authority creditors" had been incorrectly classified as "Sundry creditors" in Note 23.</p>	<p>£664,800 has been transferred from Sundry Creditors to Local Authority creditors.</p> <p>This is merely a classification error within Note 23 and does not affect the overall creditors balance on the Balance Sheet.</p>
<p>A disclosure note required by the SoRP analysing general government grants was omitted from the Notes to the Income and Expenditure Account</p>	<p>The required Income and Expenditure disclosure has now been made at Note 37</p>
<p>We highlighted a number of minor typographical amendments that needed to be made to the accounts.</p>	<p>All amendments have been made.</p>

# Appendix 3 – Draft letter of representation

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Ms F Blatcher  
District Auditor  
Audit Commission  
2nd Floor  
Aspinall House  
Aspinall Way  
Middlebrook  
Bolton BL6 6QQ

Dear Fiona

**RE: Chorley Borough Council – Audit for the Year Ended 31 March 2009**

I understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009.

**Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom : A Statement of recommended practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

**Supporting records**

To the best of my knowledge, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by Chorley Borough Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and council meetings, have been made available to you.

## Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

I have disclosed to you my knowledge of any:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I have disclosed to you:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

## Law, regulations, contractual arrangements and codes of practice

I am not aware of any actual or potential instances of non-compliance with laws, regulations and codes of practice, likely to have a material effect on the finances or operations of the Council.

## Fair Values

I confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with the financial reporting framework.

The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and appropriately reflect the best estimate of fair value of assets and liabilities required to be disclosed by these standards.

## Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.



**Compensating arrangements**

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

**Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

**Related party transactions**

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

**Post balance sheet events**

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

**Specific representations:**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

**Signed on behalf of Chorley Borough Council:**

I confirm that this letter has been discussed and agreed by the Audit Committee on 24 September 2009.

Signed: .....

Name: Gary Hall

Position: Chief Finance Officer

Date: 24 September 2009

# Appendix 4 – Use of resources key findings and VFM conclusion

The following tables summarise the key finding and conclusions for each of the three use of resources themes and highlights my conclusions against the 7 criteria used in assessing the Council’s VFM conclusion.

**Table 4      Managing finances**

<b>Theme score</b>	<b>3</b>
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	
<b>Score</b>	<b>4</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 1.3 (financial reporting)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>

**Appendix 4 – Use of resources key findings and VFM conclusion**

**Table 5      Governing the business**

<b>Theme score</b>	<b>3</b>
<b>KLOE 2.1 (commissioning and procurement)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 2.2 (data quality and use of information)</b>	
<b>Score</b>	<b>4</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 2.3 (good governance)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 2.4 (risk management and internal control)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>

**Table 6      Managing resources**

<b>Theme score</b>	<b>4</b>
<b>KLOE 3.3 (workforce planning)</b>	

#### Appendix 4 – Use of resources key findings and VFM conclusion

<b>Score</b>	<b>4</b>
<b>VFM criterion met</b>	<b>Yes</b>

A more detailed Use of Resources report will be presented at the next Audit Committee.

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# The Audit Commission

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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