



# The Audit Findings for Chorley Borough Council

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Year ended 31 March 2020

July 2021



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.</p> <p>Issues faced by the Council have included:</p> <ul style="list-style-type: none"> <li>• Many of the Council's officers, including the Finance Team, have had to adapt to working from home</li> <li>• Additional tasks were given to the Council, for example payment of business grants, whilst trying to ensure services continued to be provided</li> <li>• Potential income loss from the Council's key assets, such as Market Walk, as businesses remain closed during lockdowns.</li> </ul> <p>Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>Our audit risk assessment considered the impact of the pandemic on our audit. We issued an audit plan in September 2020, where we reported an additional financial statement risk in respect of Covid 19 and highlighted the impact on our VfM approach..</p> <p>Restrictions on non-essential travel has meant both Council Finance staff and audit staff have had to work remotely throughout the period of the year-end audit. This has created challenges for the completion of our audit, for example in relation to accessing evidence and verification of assets. Through the use of Teams, we have met regularly with the Council's finance team throughout the audit. We have also made use of our Inflo system to ensure the safe transfer of your audit evidence.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed remotely during February to July 2021 . Our findings are summarised within this report. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• final review of our audit procedures in relation to valuations of Property, Plant and Equipment;</li> <li>• review of the final set of financial statements;</li> <li>• completion of final review and file closure procedures; and</li> <li>• receipt of management representation letter.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting material uncertainties related to the valuation of land and buildings and property investments of the Local Government Pension Fund.</p>

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have yet to complete our risk based review of the Council's value for money arrangements. Our work in response to the identified risk related to the purchase of Logistics House is ongoing and we are working with management to finalise our reporting in this area over the coming weeks.
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We continue to consider reporting responsibilities as part of the finalisation of our VFM conclusion procedures.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our VFM Conclusion work.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and, subject to the outstanding matters set out on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Governance Committee meeting on 28 July 2021.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,029k	This equates to 1.9% of the previous year's audited gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware of any misstatement.
Performance materiality	£772k	Assessed at 75% of financial statements materiality
Trivial matters	£51k	Assessed at 5% of financial statements materiality
Materiality for senior officer remuneration disclosures	£20k	This item merits a lower materiality than the financial statements as a whole due to being of particular interest to the public

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.

We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation

- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates

- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and

- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

In response to the identified risk we:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported.;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert.
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;

The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid-19.

We have noted that the Council valuer has reported a material uncertainty within their report as a result of the impact of the global pandemic. The uncertainty has been reflected by management within the Council financial statements, in line with our expectations.

Management have also agreed to include a material uncertainty in relation to the net Local Government Pension liability as a result of uncertainty around the valuation of the Council's share of the pension property assets of Lancashire Pension Fund.

Both of these material uncertainties will be referenced in the audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is reflective of the auditor drawing attention to a disclosure within the financial statements that we believe is of significant importance.

We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement of the financial statements.

# Significant audit risks

## Risks identified in our Audit Plan

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

## Auditor commentary

We have undertaken the following procedures in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied that were made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined at the planning stage that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable

The presumed risk was rebutted at the planning stage of the audit for the reasons given.

We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate.

Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

## Auditor commentary

In response to this risk we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed with the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

The following issues were identified in our work:

- The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts
- When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. More detail on this matter can be seen on page 10.
- Our review of valuation movements identified that a number of assets including Market Walk, Strawberry Fields and Primrose Gardens were valued at cost. This is not consistent with the requirements of the CIPFA Code and not an appropriate measure as confirmed by our own independent external valuers.
- Following discussion, management engaged their new external valuer to re-consider the valuation of these assets as at 31 March 2020 resulting in an impairment in value of £10.181m. Management have adjusted the accounts to reflect the reduction in value and we have summarised this in Appendix A.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

## Auditor commentary

Our audit work included, but was not restricted to:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

The auditor of Lancashire Pension Fund included an emphasis of matter paragraph in their audit report to reflect the "material estimation uncertainty" that exists in the Fund's property investment portfolio due to Covid-19. Management at the Council updated their disclosures in note 5 (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements to make reference to this uncertainty and given the unknown impact on the valuation, we intend to include an emphasis of matter in our audit report.

There are no further matters we wish to bring to your attention regarding the valuation of the net pension liability on the Council's balance sheet. Based on the procedures completed as above, we have gained assurance that the net pension liability is fairly stated.

# Significant audit risks

## Risks identified in our Audit Plan

### Purchase of Logistics House and creation of a new wholly owned subsidiary

In July 2019 a decision at the full Council meeting approved the purchase of Logistics House for £33.7m. Approval was also given for additional PWLB borrowing to fund the total purchase costs as well as agreeing to change certain treasury management limits and indicators. The Council also agreed to the establishment of a wholly owned commercial property management company to operate the asset.

The purchase of the asset was made shortly after the approval whilst the subsidiary was finalised in March 2020. No transfer of the asset had taken place during the year and we understand no group accounts will be prepared given the subsidiary has not undertaken any transactions or has any assets/liabilities on its balance sheet.

We also understand that a revaluation of the property has taken place for the 2019-20 financial statements. Income has also been received during the year from the lease of the property.

The transaction gave rise to a number of material accounting transactions in the financial statements which, given the value of the transaction, needs to be considered.

## Auditor commentary

Our audit work included, but was not restricted to:

- Agreed the value of the purchase to sale documentation
- considered the accounting for the purchase to ensure it met proper practice
- reviewed the revaluation of the property through correspondence with the valuer and consideration of the accounting treatment as at 31 March 2020
- considered how the Council has accounted for the income in the 2019-20 accounts
- reviewed the Council's conclusion that group accounts were not required in 2019-20 and considered associated disclosure notes.

Logistics House had been purchased for £31.45m and we have been provided with suitable documentation and evidence in relation to the purchase.

The subsequent valuation of the property for the purposes of preparing the 2019-20 financial statements, valued the asset significantly less than the purchase price based on a key assumption relating to yield.

The Council engaged another independent valuer to review the valuation of Logistics House and this supported a higher value based on a different yield percentage. The original valuer subsequently re-considered their valuation following management challenge and revised their valuation of the asset upward to £34.4m using the same yield assumption as the second independent valuer.

Given the material nature of this asset and the change in valuation noted above, we engaged our own independent external valuer to consider the appropriateness of the assumptions used to value Logistics House.

Our expert has provided us with the assurances to conclude that the valuation of Logistics House within the financial statements is materially correct and is based on reasonable assumptions.

Logistics House was classified as an operational building within the draft financial statements of the Council. Based on our understanding of the rationale for the purchase of the asset, to secure an income stream for the Council, we challenged management on this classification as the purpose for holding the assets suggested that it met the criteria for classification as an investment property. Management have considered and agreed with this and have reclassified the asset as an investment property.

Review of the rental income associated with Logistics House identified that the draft accounts did not recognise any income due to the Council and instead reflected a debtor/creditor relationship in the balance sheet that netted to nil. Following discussion, management have accepted that rental income due for the period to 31 March 2020 of £0.949m is income of the Council and adjusted the accounts to recognise this in the CIES. The impact of this is that useable reserves of the Council have increased by £0.949m.

The Council has not prepared group accounts for 2019-20 on the basis that the wholly owned subsidiary was not active during the year and Logistics House was not transferred to the company. We concur that this is appropriate

We understand that the Council still intends to make use of the subsidiary company and to transfer the asset to it. The Council should ensure that the accounting treatment applied to this transaction is appropriate and engage with external audit as part of the process.

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Land and Buildings – Other</b>	<p>During 2019/20 the valuations were carried out by Jacobs RICS qualified Surveyors. The basis of valuations is on that recommended by CIPFA and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by RICS</p> <p>Land and Buildings are revalued sufficiently regularly to endure that their carrying amount is not materially different from their current value at the year-end. Revaluations take place every five-years on a rolling programme. During 2019/20 £118m, from a total of £130m, of the Council's Land and Buildings were revalued.</p> <p>All Property, Plant and Equipment balances, including Land and Buildings are held at an estimate of current value with the exception of infrastructure, community assets, assets under construction and equipment where the valuation is based on a depreciated historical cost. For specialised land and buildings, for example leisure centres, there is an absence of market based value, so a depreciated replacement cost is used as an estimate of current value</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5.</p> <p>The valuations provided by Jacobs were the subject of considerable challenge by the Council, particularly in relation to Logistics House. The valuations were not completed until November 2020.</p>	<p>The following issues were identified in our work:</p> <ul style="list-style-type: none"> <li>• The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts</li> <li>• When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. Logistics House had been purchased for £31.45m, however Jacobs valuation was almost £10m less than this due to the use of a yield rate of 7.6%. Given the material uncertainty, both the Council and Grant Thornton engaged with other valuers to consider the valuation, which centred on the use of a yield rate of 4.83%. After consideration of a number of factors including location and yield rates of similar properties elsewhere in the north-west, our work concluded that the yield of 4.83% adopted as part of the 31 March 2020 valuation appear reasonable.</li> <li>• Within the financial statements, Logistics House was classified as Land and Buildings within the Plant, Property and Equipment (PPE) balance. However the asset meets the definition of an investment property as it is held solely for earning rentals rather than the provision of services or administrative purposes. The Council agreed to change the classification of the assets within the financial statements</li> <li>• Further challenge was provided over the valuation of other land and building assets, including Market Walk, Strawberry Fields and Primrose Gardens. As discussed on page 8, this has resulted in a £10.181m reduction in asset values due to an inappropriate valuation approach being applied by the valuer.</li> </ul>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be materially misstated
- We consider management's process is appropriate, but found material issues
- We consider management's process is appropriate and there are no errors in the land and buildings balance

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
<b>Net pension liability – £43m</b>	<p>Regulations require actuarial fund valuations to be carried out every 3 years. Chorley Council are member of the Lancashire County Pension Fund and the Actuary service is provided Mercer. The latest valuation, carried out as at 31 March 2019 showed there was a surplus of £12m against the Fund's solvency funding target, so the Fund's assets were sufficient to cover just over 100% of its liabilities At the previous valuation at 31 March 2016 the shortfall was £690m, equivalent to a solvency funding level of 90%.</p> <p>From 2019/20 the figures include an implicit allowance for the estimated cost of the McCloud judgement. The McCloud judgement refers to a legal challenge in relation to historic benefit changes for all public schemes being age discriminatory.</p> <p>For the three-year valuation period beginning 1st April 2020 the Council opted to pre-pay the new future service rate as a single amount in April each year of the 3 year valuation period to 2022/23. The Council also opted to pay the full three-year deficit recovery payment for the period 2020/21 – 2022/23. These were both done in return for a small overall discount.</p>	<p>Management at the Council rely on the work completed by Mercer, who are Fellows of the Institute and Faculty of Actuaries. Given the specialised nature of this area, we determined that an auditor's expert is required to evaluate the appropriateness of key assumptions used in calculating the pension liability. We use pwc as an auditor's expert through arrangements set up originally by the Audit Commission and novated to the National Audit Office. Whilst pwc complete their review, we perform a review to ensure we are satisfied with the outcomes of the actuary's report as well as following up issues highlighted by pwc. .</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.1%</td> <td>2.1%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>3.35% - 3.6%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>23.8 / 22.3 years</td> <td>22.5 – 24.7 years / 20.9 – 23.2 years</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.8 / 25 years</td> <td>25.9 – 27.7 years / 24 – 25.8 years</td> <td>●</td> </tr> </tbody> </table> <p>We have concluded our review and are satisfied with that there are no material errors within the pension fund liability or supporting disclosures.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.3%	●	Pension increase rate	2.1%	2.1%	●	Salary growth	3.6%	3.35% - 3.6%	●	Life expectancy – Males currently aged 45 / 65	23.8 / 22.3 years	22.5 – 24.7 years / 20.9 – 23.2 years	●	Life expectancy – Females currently aged 45 / 65	26.8 / 25 years	25.9 – 27.7 years / 24 – 25.8 years	●	
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Life expectancy – Females currently aged 45 / 65	26.8 / 25 years	25.9 – 27.7 years / 24 – 25.8 years	●																								

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Significant events or transactions that occurred during the year.	<p>The most significant transaction during 2019/20 was the Council's purchase of Logistics House. Given the level of investment we have had several discussions with the Council on both the accounting for the transaction and also financial assessments of the purchase.</p> <p>During November 2020 the Council's valuers, Jacobs, produced their assessment of the valuation of Logistics House which was significantly lower than the purchase price. The valuation resulted in further discussions with management.</p>	<p>We have completed our review of the accounting and valuation of Logistics House. Our work included engaging with our own valuer. We concluded that the valuation included in your accounts was appropriate, though we disagreed with the accounting treatment. The asset was included in your PPE balance, however it meets the definition of an investment property. We also concluded that the accounting treatment of the income was incorrect and we have discussed and agreed amendments.</p>

# Significant findings – going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

The Council assessment of the appropriateness of the use of going concern included considering:

- Medium to long-term planning
- Implications of government policy and legislation
- Forecasts and budgets
- Working capital and cashflow
- Reserves
- Provision and contingent liabilities

## Auditor commentary

Our review of the assessment prepared by management concluded that the use of the going concern assumption is appropriate

We are satisfied that the assessment reviewed the appropriate available evidence and the use of the going concern assumption appears appropriate.

## Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Governance Committee papers
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the financial institutions used by the Council for banking purposes. We received all confirmations, with the exception of one which we are following up with the finance team.
<b>Disclosures</b>	Our review found no material omissions in the financial statements, though we made some recommendations
<b>Audit evidence and explanations/significant difficulties</b>	<p>The accounts were submitted to the audit team later than planned due to the valuations not being completed by Jacobs until November 2020. The audit was delayed as both the Council and Grant Thornton had to engage additional experts in relation to the valuation of Logistics House and other key Land and Buildings.</p> <p>Management have engaged with the audit team very well during the period of the audit and have provided suitable supporting evidence in response to audit requests.</p>

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified have been identified. We plan to issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We currently have nothing to report on these matters</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the threshold;</p>
<b>Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2019/20 audit of Chorley Borough Council as our work on VFM is ongoing.</p>

# Value for Money

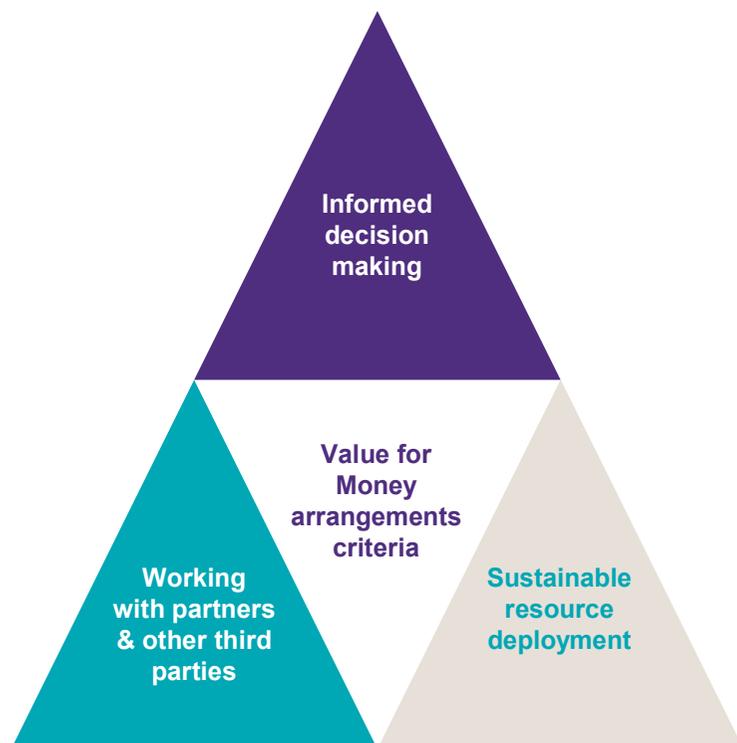
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in September 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated September 2020

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

We identified two significant risks in relation to the VFM Conclusion and these are:

- Financial Sustainability
- The purchase of Logistics House

Our work has not yet been completed and further evidence has been requested from the Council in relation to the governance and decision making processes in advance of the purchase of Logistics House. We will report our findings on the VFM Conclusion once we have completed our review.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

# Independence and ethics

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2019-20 was £16,000 in comparison to the original proposed fee for the audit of £44,316 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

No non-audit related services were identified which were charged from the beginning of the financial year to July 2021

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Reclassification of Logistics House from Property, Plant and Equipment to Investment Properties	-	Investment Properties - 34,395 PPE - (34,395)	-
Recognition of rental income due for the period to 31 March 2020 in respect of Logistics House	Financing and Investment Income – (949)	Creditors - 949	(949)
Impairment of assets incorrectly valued at cost in the draft financial statements	Expenditure on provision of services – 10,181	PPE – (10,181)	10,181
Reclassification of credit note incorrectly included within creditors on the balance sheet	-	Creditors – 668 Debtors – (668)	-
<b>Overall impact</b>	<b>£9,232</b>	<b>£(9,232)</b>	<b>£9,232</b>

# Audit adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Presentational and disclosure matters</b>	Our review and audit of the draft accounts identified a small number of presentational changes to the notes to the accounts which has added clarity of the accounts for the reader	We shared the areas for presentational changes and these have been reflected in the revised accounts which will be reviewed on receipt.	✓

## Impact of unadjusted misstatements

There are no unadjusted misstatements to bring to your attention.

# Fees

We confirm below our final fees charged for the audit and provision of non-audit service.

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£44,316	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£44,316</b>	<b>TBC</b>

The final fee for the audit is still to be finalised however it is likely to be substantially higher due to the additional work undertaken in respect of property valuations and value for money work. Any fee variations will be discussed with management and will be subject to approval by PSAA.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services - Housing Benefit Subsidy Grant	16,000	16,000
Non- Audit Related Services	0	0
<b>Total non- audit fees (excluding VAT)</b>	<b>£16,000</b>	<b>£16,000</b>

# Management letter of representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

**[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}**

Dear Sirs

## **Chorley Borough Council**

### **Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and we acknowledge the material valuation uncertainty the valuer has noted in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19 and we are satisfied that there have been no material impairment of asset values as assessed by the valuers. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Council has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code, subject to the matter raised in the Audit Findings Report.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

# Management letter of representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

## Information Provided

- i. We have provided you with:
- a. 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;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

viii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

ix. We have disclosed to you all of the group relationships of the Council and after reviewing the group boundary we do not consider that group accounts are required to be prepared.

x. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

- i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS. The final version of the AGS will be provided to you when available and before publication.

# Management letter of representation

## Narrative Report

- i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements. The final version of the Narrative Report will be provided to you when available and before publication.

## Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 July 2021.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....



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