

Annual governance report

Chorley Borough Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements to date and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

My 2010/11 audit is now substantially complete and I expect to issue an unqualified opinion by 30 September 2011.

I identified only a small number of errors in the accounts which have all been adjusted. These were not of a significant nature and did not affect the underlying financial position of the council.

Value for money

I am required to assess whether the Council put in place adequate arrangements for securing economy, efficiency and effectiveness in its

use of resources. I propose to issue an unqualified conclusion in this respect.

The Council has a good track record in identifying and delivering significant savings whilst also maintaining or improving services. In 2010/11 it achieved its efficiency target resulting in savings of £1.2 million being delivered. Budget monitoring in 2011/12 shows the council is again on track to deliver further targeted efficiency savings of £1.3 million.

For the following three years the Council has estimated that it needs to save a further £2.9 million. Provisional plans are in place to meet the required savings target for 2012/13 and work is ongoing to determine how to meet required savings in future years.

A key challenge for the Council is the continued identification and delivery of further significant financial savings whilst still meeting local needs. The Council's response to the current financial climate, together with its track record, indicate that it is well placed to meet the key challenges it faces in the coming years.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (appendix 2); and
 - approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.
-

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 you adopt the financial statements.

Opinion on the financial statements

My work on your financial statements is now substantially complete. 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 report.

Key areas of judgement and audit risk

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk	Finding
<p>International Financial Reporting Standards.</p> <p>2010/11 saw the implementation of international financial reporting standards to local government accounts. This required careful planning to ensure an efficient transition to the new financial reporting requirements.</p>	<p>Audit work carried out on the restated financial statements under IFRS did not identify any significant issues. We have had on-going discussions with key finance staff throughout the course of the year and shared advice to aid the restatement exercise. Officers demonstrated a good understanding of the new requirements and have dealt well with the implementation of IFRS. I am satisfied that the resultant figures within the statements are materially correct.</p>

Financial statements

Errors in the financial statements

I identified only one error which affected the principal financial statements, the impact of which was to overstate both debtors and creditors by £374k. This has been adjusted for and has not affected the underlying financial position of the Council. Further detail is provided in appendix 2. Additionally a number of adjustments have been agreed following my audit to improve the presentation and clarity of disclosure notes.

Significant weaknesses in internal control

I have not identified any significant weaknesses in internal control..

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and statements disclosures. The quality and accuracy of the Statement of Accounts and supporting working papers as submitted for audit were of a high standard. In the context of the significant changes to the format of the accounts and the disclosure requirements under IFRS, this is a significant achievement.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. These representations are set out within the letter of representation which is included at appendix 3.

Value for money

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

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<ul style="list-style-type: none">■ Management and Officers understand the significant financial management challenges and risks facing the Council and are taking appropriate action to secure a stable financial position.■ The Council delivered the required level of efficiency savings in 2010/11 to achieve a balanced budget. Budget monitoring in 2011/12 show that it is on course to secure its efficiency savings target of £1.3 million.■ Medium-term financial planning and annual budgeting reflects the council's strategic objectives and priorities for the year, and over the longer term. The Council has reviewed its Medium Term Financial Strategy (MTFS) in light of the current economic climate. Its current MTFS covers the period up to 2014/15 and indicates that savings of £2.9 million are needed. Provisional plans are in place to meet the required savings target for 2012/13 and work is ongoing to determine how to meet required savings in future years.

Criterion	Findings
	<ul style="list-style-type: none"> ■ The Council operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members. Reserves have increased during 2010/11 in light of the significant financial pressures and risks facing the Council over the next three years. ■ The key challenge for the Council is to ensure the continued identification and delivery of significant financial savings over the next three years whilst also meeting local needs for the services it provides. Its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<ul style="list-style-type: none"> ■ The Council has strong leadership and is adopting a strategic approach to identifying cost reductions and challenging spending. It has reviewed its strategic priorities and the cost-effectiveness of its activities. It is taking a rational view of its priorities and of the short, medium and longer-term opportunities for savings. Surveys, such as PLACE, have shown increased levels of user satisfaction over recent years. ■ The Council continues to have good engagement with the local community, staff and external partners and uses this effectively to identify and consider options for addressing the specific challenges it is facing. ■ The Council's arrangements for financial strategic planning are effective and it focuses resources through its budget setting programme. It uses benchmarking against similar councils and performance information to support planning and decision making. It understands how local factors impinge on costs. ■ The Council has clear information on costs, including transaction costs and unit costs for specific services. This information is used to review and challenge value for money. The Council uses costs and performance information well in decision making and commissioning to determine opportunities for improving value for money. The Council has invested the savings secured through these reviews in its priority areas such as reducing crime and anti social behaviour. ■ The Council is continuing to extend its shared working with South Ribble Borough Council around Revenues and Benefits, and joint procurement exercises to improve the value for money delivered to both Councils of such services.

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Chorley Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Transformation (Chief Financial Officer) and auditor

As explained more fully in the Statement of Responsibilities, the Director of Transformation is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Chorley Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Chorley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Chorley Borough Council 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
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ
September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatement during my audit and management have adjusted the financial statements. I bring it to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<ul style="list-style-type: none"> Balance Sheet 	Both debtors and creditors were overstated in the original accounts in respect of an estimated debtor of £374k for civil parking enforcement from Lancashire County Council (LCC). This debtor should have been cancelled when a new debtor to reflect the actual amount agreed with LCC was raised. Instead a compensating creditor was raised for £374k.	None	None	374	(374)

Appendix 3 – Letter of representation

Fiona Blatcher
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Middlebrook
Bolton
BL6 6QQ

Chorley Borough Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Chorley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year/period ended 31 March 2011. All representations cover the Council's accounts included within the financial statements

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- 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;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

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

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Chorley Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Chorley Borough Council

I confirm that the this letter has been discussed and agreed by the Council on 29 September 2011

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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

