

Audit Detailed Report

March 2006



Opinion Memorandum

Chorley Borough Council

Audit 2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

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Summary report

Introduction

- 1 Our responsibility, as the Council's external auditors, is to form an independent view on the accounts and issue our opinion as to whether they present fairly the financial position of the Council.
- 2 We plan the audit in accordance with the Audit Commission's Code of Audit Practice in order to obtain reasonable assurance that the accounts are free from material misstatement, whether from fraud or other irregularity or error. We also provide assurance that the accounts comply with statutory and other proper accounting practices.
- 3 The purpose of this report is to summarise the matters arising from the audit of the Council's accounts for the year ended 31 March 2005.

Background

- 4 SAS 610 requires auditors to report to those charged with governance, as distinct from management, certain matters before they can give an opinion on the financial statements.
- 5 Auditors should communicate to those charged with governance:
 - expected modifications to the auditors' report;
 - unadjusted misstatements;
 - material weaknesses in the accounting and internal control systems identified during the audit;
 - their views about the qualitative aspects of the entity's accounting practices and financial reporting; and
 - matters specifically required by other Auditing Standards to be communicated to those charged with governance; and on any other relevant matters relating to the audit.
- 6 We agreed with the Council that, the communications required by SAS 610 in advance of issuing our report on the annual financial statements of the Council was not required as:
 - all non-trifling and material errors identified during the course of the audit have been amended;
 - no material weaknesses in the accounting and internal control systems have been identified;
 - no other accounting or auditing standards matters need to be reported; and
 - an unqualified opinion has been issued.

Main conclusions

- 7 A number of issues arose during the course of the opinion audit with one material error and a few non-trifling errors, which required amendments to the statement of accounts. The amended accounts were re-approved by the Accounts Committee on 21 September 2005. As a result of all non-trifling errors being corrected no SAS 610 report, to those charged with governance, was necessary.
- 8 The key issues arising from the opinion audit are summarised in the next section with the matters arising set out in Appendix 1 as a detailed action plan. Overall, a reasonable set of accounts was presented for audit with future improvements largely needed to facilitate early opinion sign off in accordance with the Whole of Government Accounts agenda.

Detailed report

Opinion audit findings

- 9 Table 1 below outlines the material and non-trifling changes to the accounts along with the rationale for the adjustment. The Director of Finance has reported the key changes arising from the audited accounts to the Accounts Committee on 21 September 2005.

Table 1 Material and non-trifling changes

Amendment	Rationale for adjustment
£2,464,070 of grant used to fund expenditure on deferred charges has been credited directly to the CFA without going through the CRA.	Grant used to fund expenditure on deferred charges required a debit appropriation from CRA and credit against the net cost of services on the CRA. Nil impact on the bottom line of the CRA.
£818,000 of HRA expenditure included in the net cost of services section of the CRA relates to the major repairs reserve.	This amount is now included in the appropriations section of the CRA to comply with SORP accounting requirements.
Opening balance for deferred charges included £194,000 of premia on debt rescheduling, which has been reclassified as long-term debtors. The premia on debt rescheduling should be written off to the CRA or use capital receipts to avoid the impact on CRA.	Latest AC technical guidance has been followed by the Council with the debt premia set against existing capital receipts.
Pensions interest costs and expected return on pensions assets with a net position of £281,000 are not disclosed in the net operating expenditure section of the CRA.	This has been amended on the face of the CRA to ensure compliance with FRS 17 and the SORP 2004.
£418,000 of amortised intangible fixed assets have been debited to the net cost of services within the CRA and then written off to the CFA as an appropriation from the CRA.	These amortisation charges have been amended to treat them on the same basis as depreciation on fixed assets by making a matching debit and credit made to AMRA.

Amendment	Rationale for Adjustment
£673,000 of housing pooled capital receipts have been paid to the ODPM directly from the Usable Capital Receipts Reserve.	These receipts required a CRA debit to net operating expenditure, with a credit to CRA appropriations to negate the impact on the General Fund bottom line.

Other opinion related issues

- 10 During the course of the audit, a number of other opinion related issues arose, which need to be addressed to facilitate earlier closedown and opinion sign off to meet the challenging Whole of Government Accounts timetable.
- 11 The Council did present an early set of accounts for audit as approved by the Accounts Committee on 5 July 2005. The final accounts working paper checklist was not completed on commencement of the audit and although most working papers had been provided on a timely basis some delays did occur.
- 12 A robust Statement on Internal Control (SIC) evidence gathering process has been introduced. Although, Internal Audit will need to ensure timely reviews of key financial systems to inform SIC assurances and assist in compliance with the International Standards on Auditing 315.
- 13 A change in the bad debts provision for council tax calculation had a material reduction in the provision year on year, which has been justified by the Council as over-provision in previous years. A note has been added to the Collection Fund to explain the change in provision calculation and we strongly recommend close monitoring of the provision levels to manage the risk of any unexpected impact on the CRA.
- 14 The register of interests for members has not been reviewed as part of the process for identifying related party transactions and no equivalent officer register exists. However, a review of the members register of interests and the officer's gifts and hospitality register has not identified any significant items worthy of disclosure under FRS 8.

Disclosure requirements

- 15 During the course of the audit, a number of changes to the accounts were agreed, but these were presentational issues to help clarify the content of the accounts and to ensure full compliance with the Statement of Recommended Practice 2004 (SORP) and to assist in preparation for the Whole of Government Accounts agenda.

Acknowledgements

- 16 We would like to thank officers for their assistance during the 2004/05 financial year opinion audit.

Appendix 1 – Action plan

Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R1 Introduce a policy for only capitalising expenditure which meets the CIPFA definition.	2	Gary Hall Director of Finance	Yes	Agree to introduce before end of 2005/06 financial year.	March 2006
R2 Ensure the working paper requirement checklist is completed as part of the closedown arrangements.	3	Gary Hall/ Michael Jackson	Yes	Agree to complete as part of closedown.	June 2006
R3 Introduce early reviews of key financial systems to support the SIC and ISA 315.	3	Garry Barclay Audit and Risk Manager	Yes	Agree to complete as part of the 2005/06 ISA work.	April 2006
R4 Monitor the adequacy of council tax bad debts provision on a regular basis.	3	Gary Hall	Yes	The Council tax bad debts provision will be reviewed on an ongoing basis.	Ongoing.
R5 Introduce an officers' register of interests and procedures to monitor member and officer registers for potential FRS 8 related party transactions.	3	Gary Hall/ Rosemary Lyons Director of Legal Services	Yes	Agree.	June 2006