

Annual governance report

Chorley BC

Audit 2011/12



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Key messages

This report summarises the findings from the 2011/12 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 your arrangements to secure value for money in your use of resources.

Financial statements

My audit of the Council's financial statements is substantially complete and as at 14 September I expect to issue an unqualified audit opinion by 30 September 2012.

I have not identified any material errors within the financial statements and those errors which have been identified have not affected the underlying financial position of the Council. All errors have been corrected and related only to disclosure issues.

The Council's accounts were prepared to a good standard and were supported by good quality working papers. Officers responded helpfully to my audit queries in a timely way.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

The Council has again achieved significant efficiency savings whilst delivering well against its performance targets. Good progress has been made in securing the required levels of savings for 2012/13 and identifying actions needed to deliver additional savings in 2013/14. In line with others, the Council faces considerable uncertainty over the next few years from the impact of economic conditions on the demand for the services it provides, centrally driven changes around welfare reform and NNDR changes.

In this context, the key challenge for the Council is to ensure the continued identification and delivery of significant financial savings 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.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Committee to:

- approve the letter of representation (appendix 2), 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 elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

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.

Uncorrected errors

There are no uncorrected errors.

Corrected errors

A number of amendments have been agreed to improve the accuracy, clarity and internal consistency of the disclosure notes within the financial statements. There are no items that warrant bringing to your attention. All errors identified during the course of the audit have been amended for. None of the amendments have affected the general fund balance

Significant risks and my findings

I reported to you in my 2011/12 Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Heritage Assets</p> <p>The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. There is a risk that the Council may be unable to account for all heritage assets due to the subjective nature and valuation basis associated with these assets.</p> <p>A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.</p>	<p>I evaluated the management controls you have in place to recognise and value heritage assets. I also undertook detailed testing on a sample of heritage assets to confirm the Council has accounted for them in accordance with FRS 30 and the Code and the financial statements are fairly stated.</p>
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council is required to value PPE at fair value (with some exceptions). There is a risk that the valuation reported in the financial statements will be materially misstated due to the subjective nature and valuation basis associated with these assets.</p>	<p>I have evaluated the instructions given to the Council's valuer against the CIPFA guidance and the valuers' qualifications and independence. I have tested a sample of assets to satisfy myself that the valuation and depreciation of property, plant and equipment accounted for by the Council and disclosed in the financial statements was in line with the requirements of IAS 16 and the Code. My testing has not identified any issues to bring to your attention.</p>
<p>Estimation of pension liability and asset</p> <p>The Council is required to reflect data relating to the</p>	<p>I have reviewed the design and implementation of management controls over establishing the estimate, including arrangements for instructing actuaries and controls over information provided to actuaries. I have used my own expert to enable me to</p>

Risk

assets and liabilities as well as income and expenditure relating to its Pension Fund within its accounting statements.

The data is based on information provided by Mercers, an independent firm of actuaries, employed by the County Council Fund and is based on the latest full valuation of the scheme as at 31 March 2010.

Given the large values involved and the high degree of estimation and subjectivity this is deemed to be a significant risk.

Finding

evaluate the work of your actuary. I have agreed the estimate to the actuarial report. My testing has not identified any significant issues to bring to your attention.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have no matters I wish to report.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

I have no matters I wish to report.

Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. As at 14 September I have not completed the procedures specified by the National Audit Office. I expect to complete my report by 28 September 2012.

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 the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. I have set out below my conclusion on the two criteria.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</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. Financial and operational risks are identified early and effective plans put in place to manage those risks.■ The Council exceeded its target for efficiency saving of £1.1m for 2011/12 by almost £100k. The extra savings were generated from additional initiatives identified in year. Additional efficiency savings for 2012/13 have already been secured.■ Medium-term financial planning and annual budgeting reflect 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 further savings of £1.2m are needed. Provisional plans are in place to meet the required

Criteria

Findings

savings target for 2013/14 and work is ongoing to determine how to meet required savings in future years.

- The Council operates within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by members. General fund reserves have increased during 2011/12 slightly to £2.3m. The Council faces considerable uncertainty in the coming years relating to revision to the redistribution of NNDR, providing welfare services and how it is funded, and the funding of support services provided by Lancashire County Council through the Council's facilities. Officers are alert to these challenges and will take action when the proposed changes are finalised. The level of general fund reserves will give the Council time to secure the required level of saving from the changes.
- The key challenge for the Council is to ensure the continued identification and delivery of significant financial savings whilst also meeting local needs for the services it provides. As noted in previous years, its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

- 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.
- Overall performance on the key measures in the Corporate Strategy and key performance indicators for 2011/12 is strong, with 95% of the Corporate Strategy measures performing above target or within the 5% tolerance.
- In the areas where performance is below target, action plans are in place to achieve improvements. These include plans to increase the percentage of 16-18 year olds who are in education, employment or

Criteria

Findings

training and to reduce the number of families in temporary accommodation..

- 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 its in-house costing reviews to support planning and decision making. The Council has invested the savings secured through these reviews in its priority areas such as reducing crime and anti-social behaviour.
- During 2011/12 substantial efficiency savings were identified through the Transformation Strategy through contract renegotiation and service reviews. The following relate to efficiencies secured in 2011/12:
 - Revenues and Benefits restructure (£86,000)
 - Planning restructure (£56,000)
 - Planning fees and charges (£58,000)
 - Insurance and other procurement (£37,000)
 - Bengal Street depot relocation (£75,000)
 - Debt restructuring (£50,000)
 - Base budget review (£69,000)

Additional savings were also identified by agreeing changes to the waste collection contract of £302,000 that will be implemented in 12/13.

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Fees

I reported my planned audit fee in the 2011/12 Audit Plan.

I have completed my audit in line with the agreed fee.

Appendix 1 – Draft independent auditor’s report

Opinion on the Council financial statements

I have audited the financial statements of Chorley Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12.

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 Chief Executive and auditor

As explained more fully in the Statement of the Chief Executive’s Responsibilities, the Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Council’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Executive; and the overall presentation of the financial statements. In addition, I read all the

financial and non-financial information in the foreword by the Chief Executive to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Chorley Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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 Council 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 2011, 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 ended 31 March 2012.

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 2012

Appendix 2 – Draft letter of management representation

Chorley Borough Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other insert relevant details directors of Chorley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council 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 you.

Supporting records

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

Supporting records

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

Internal control

I have communicated to you all deficiencies in internal control of which I am aware

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 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 Council. 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 the Council's 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 requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Chorley Borough Council

I confirm that the this letter has been discussed and agreed by the Governance Committee on 27 September 2012

Signed
Name
Position
Date

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Council's systems of internal control that supports the achievement of the Council's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Council is required to prepare, which report the financial performance and financial position of the Council in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Council Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Council and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Council. This term includes the members of the Governance Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Council must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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.

