

# The Audit Findings for Chorley Borough Council

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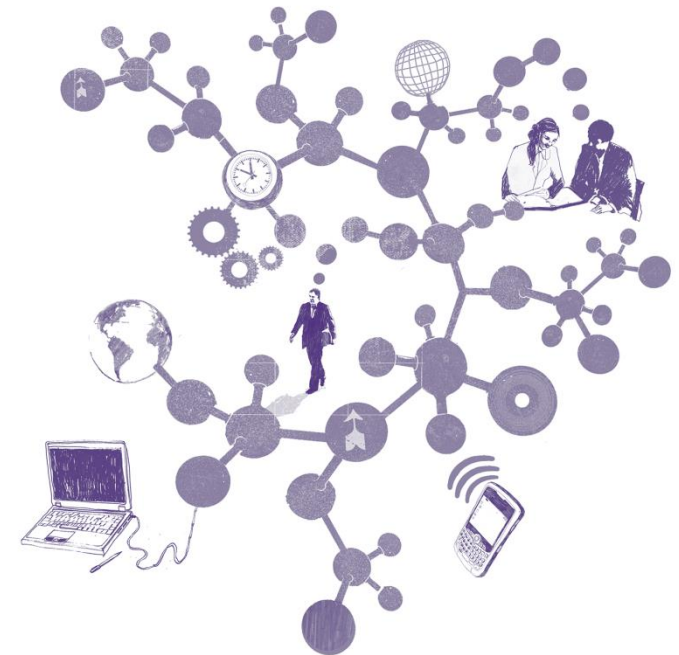
**Year ended 31 March 2014**

September 2014

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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	4-6
2. Audit findings	7-18
3. Value for Money	19-25
4. Fees, non audit services and independence	26-27
5. Communication of audit matters	28-29
<b>Appendices</b>	
A Action plan	31
B Audit opinion	32-33

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Fees, non audit services and independence**

**05. Communication of audit matters**

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Chorley Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 10<sup>th</sup> April 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- testing of some elements of income and expenditure, welfare benefits, and the collection fund,
- completion of testing on asset valuations including for Market Walk
- finalising our review of the NDR business rates provision
- completion of testing on employee remuneration
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the financial statements were supported by adequate working papers
- we have identified no adjustments which affect the Council's reported financial position
- the audit has identified a small number of material misstatements which management has agreed to amend. These relate to the accounting treatment for Market Walk, together with accounting requirements for the introduction of changed arrangements for IAS19 costs and NNDR collection
- we have also agreed some minor amendments to classification and disclosure within the notes to the accounts. None of these are individually significant enough to bring to your attention.

Further details are set out in section 2 of this report.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention. We have commented on a minor weakness identified in respect of the bank reconciliation process, which is covered in more detail in section 2.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive and the Head of Finance.

Recent DCLG consultation on the bringing forwards of the accounts timetable in future years, (2017/18), represents a significant challenge for finance teams and auditors alike. For Chorley the technical accounting demands on the team are growing as it enters into non-traditional operational activities adding an additional challenge. We will be discussing opportunities for making efficiencies in the accounts preparation and audit process in the forthcoming months to feed into preparations for 2014/15.

Recommendations arising from our audit are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the finance team.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
**September 2014**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance Committee on 25<sup>th</sup> June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 25<sup>th</sup> June 2014.

## **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review of revenue recognition policies.</li> <li>• testing of material revenue streams.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</li> <li>• We set out later in this section of the report our work and findings on key accounting estimates and judgments.</li> </ul>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period.	<p>We have undertaken the following in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• performed substantive testing of the material operating expenditure in respect of waste management, leisure and the shared financial services arrangement with South Ribble Borough Council.</li> <li>• sample testing of other operating expenditure</li> <li>• review of any significant items.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• sample testing of payroll calculations and contracts of employment</li> <li>• rationalised payroll costs by reference to staff numbers, and salary increases applied in the year, together with comparison of monthly payroll expenditure, ensuring any unusual trends are satisfactorily explained.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.



# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare Expenditure</b>	Welfare benefit expenditure improperly computed.	<p>We have undertaken the following in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• sample testing of welfare benefit expenditure</li> <li>• carried out a programme of work as part of the certification of the housing benefits subsidy grant claim.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of the processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• work to gain assurance over the work of the Council's valuer</li> <li>• testing of the in-year revaluations including the valuation of Market Walk.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified, other than the issue below.</p> <p>The Council operates a five year rolling programme of asset valuation, designed to cover all asset held by the Council over this period. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, This is explained further on pages 12-13.</p> <p>We are awaiting confirmation from the valuer to give us assurance over the material accuracy of those assets not valued in 2013/14.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	Accounting Policies Note 1 states that the income is accounted for in the period to which it relates regardless of when the cash is paid or received.	The recognition of revenue by the Council is in line with recognised accounting guidance and in line with CIPFA's recommended approach.	
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>– accounting treatment for Market Walk</li> <li>– pension fund liability</li> <li>– valuations of property including Market Walk</li> <li>– provisions.</li> </ul>	<p>Overall the judgements and estimates included within the financial statements have been based on a sound rationale. The estimates are supported where necessary by advice given by professional experts including Liberata UK Limited and Mercers who provide assurance around the asset values and the pension fund respectively.</p> <p>Given the significance of the acquisition of Market Walk in terms of value and local interest, we have recommended that the Council disclose its judgement on the classification of the asset and the consequent accounting treatment.</p> <p>Note 12 to the accounts and the Council's accounting policy note on PPE sets out the authority's rolling programme of revaluations. This shows that the date of valuations vary between 31 March 2010 and 31 March 2014.</p> <p>In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</p> <p>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that:</p>	

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>- accounting treatment for Market Walk</li> <li>- pension fund liability</li> <li>- valuations of property including Market Walk</li> <li>- provisions.</li> </ul>	<ul style="list-style-type: none"> <li>- the revaluation of the class of assets is completed within a 'short period'</li> <li>- the revaluations are kept up to date.</li> </ul> This approach is similar to many other authorities. We are currently awaiting confirmation from the valuer to give us assurance over the material accuracy of those assets not valued in 2013/14. The Council may wish to consider an alternative approach to valuations in the future to achieve full compliance with the requirements of the code as currently stated.	●
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	●

## Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Adjusted misstatements

A number of material adjustments to the draft financial statements have been identified during the audit process. We are required to report all adjusted misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. All misstatements have been adjusted. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £	Balance Sheet £	Movement in Reserves £
<p><b>1 Market Walk</b></p> <p>During 2013/14 the Council purchased the Market Walk Shopping Centre. The asset was originally classified as an investment property on the balance sheet, however, CIPFA's Code of Accounting Practice defines investment assets as those held solely to earn rentals or for capital appreciation or both.</p> <p>The Council's decision to purchase Market Walk also had an economic regeneration aspect to it providing the Council with greater control and influence over the town centre, improving opportunities to implement Economic Development Strategies and the Town Centre Masterplan in the long term.</p> <p>As a result the asset has been reclassified as a property, plant and equipment asset under land and buildings and taken out of investment properties within the Council's balance sheet.</p> <p>Similarly, related revenue items have been re-categorised as planning services and taken out of investment income and expenditure within the Comprehensive Income and Expenditure Statement (CIES). The re-categorisation has also led to a depreciation charge which is reflected in the CIES and balance</p>	<p>Planning Services +£0.723m</p> <p>Investment Income and Expenditure -£0.616m</p>	<p>Investment Properties – £22.250m</p> <p>PPE (Land and Buildings ) +£22.143m</p> <p>Unusable Reserves +£0.107m</p>	<p>Adjustments between accounting basis and funding basis under regulation +£0.107m</p>

# Adjusted misstatements

Detail	Comprehensive Income and Expenditure Account £	Balance Sheet £	Movement in Reserves £
<p>sheet but taken to unusable reserves via the Movements in Reserves Statement under capital financing regulations to prevent any impact on the general fund.</p>			
<p><b>2 IAS 19 Pension costs</b></p> <p>CIPFA's Accounting Code of Practice for 2013/14 made changes to the way IAS19 pension costs are accounted for. This is a change in accounting policy and applies retrospectively.</p> <p>The main changes related to a reallocation of amounts charged in the Comprehensive Income and Expenditure Statement based on information provided by the Actuary including restated comparatives for 2012/13. Whilst there is no overall effect on the 2012/13 total comprehensive income and expenditure figure, there has been changes to non distributed costs , financing and investment income and expenditure and actuarial gains/losses on pension assets and liabilities.</p> <p>The Council had correctly accounting for the changes in respect of 2013/14, but had only restated Note 44 in respect of 2012/13. It had not restated the Comprehensive Income and Expenditure Statement for 2012/13 or Note 10 which also includes pension interest costs.</p>	<p>Non distributed costs +£0.057m</p> <p>Financing and Investment income and expenditure +£0.439m</p> <p>Actuarial (gains)/losses on pension assets and liabilities -£0.496m</p>	<p>Nil impact</p>	<p>Nil impact</p>
<p><b>3 NDR and Council Tax Debtors and Creditors</b></p> <p>Since the collection of council tax and NDR is in substance an agency arrangement, the cash collected by the Council from council tax and NDR debtors belongs proportionately to the Council and the major preceptors.</p>	<p>Nil impact</p>	<p>Debtors - £3.628m Creditors + £3.628m</p>	<p>Nil impact</p>

# Adjusted misstatements

Detail	Comprehensive Income and Expenditure Account £	Balance Sheet £	Impact on total net expenditure £
<p><b>3 NDR and Council Tax Debtors and Creditors continued</b></p> <p>If the net cash paid to a major preceptor in the year is more than its proportionate share of net cash collected from council tax and NDR debtors/creditors in the year, the Council should show the net figure as a creditor in its accounts.</p> <p>The Council had not shown the net cash position between itself and major preceptors for Council Tax and NDR, but had shown the figures gross within both debtors and creditors. Consequently both debtors and creditors were overstated.</p>	Nil impact	Debtors - £3.628m Creditors + £3.628m	Nil impact
<p><b>4 Cash Flow Statement</b></p> <p>Amendments have been made to the Cash Flow Statement to correctly account for the Council's bank overdraft. This had been incorrectly netted off the cash and bank balances, rather than shown separately. A further adjustment was made to correctly account for revenue expenditure funded from capital under statute (REFCUS).</p> <p>The overall affect of these adjustments was that cash and cash equivalents at the end of the reporting period increased by £0.337m.</p>	Nil impact	Nil impact	Nil impact
<b>Overall impact</b>	Nil	Nil	Nil



## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention, however, a minor observation was noticed. The bank reconciliation used to be independently reviewed and signed by off by a senior member of the finance team. However, since that member of staff retired, this is not done as a matter of routine. There is a degree of third party checking regarding any outstanding items but the reconciliation is not signed as evidence of this process. Given the importance of this control, we have recommended a more formal review process be re-introduced.

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Governance Committee. 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</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our audit work identified no material omissions in the financial statements. A small number of changes were made to disclosure notes to improve the presentation of the financial statements and to correct minor inconsistencies.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council 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.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council has sound financial governance arrangements and financial controls in place. This is supported by members who consistently provide a robust challenge to financial matters. There is also a well established approach to strategic financial planning, through the three year medium term financial strategy, which is aligned to the corporate priorities of the Council.

Along with many other councils, Chorley continues to operate within an increasingly challenging financial environment. However, against this backdrop the Council has demonstrated a track record of meeting efficiency targets and managing its revenue budget well.

Going forward, over the next three years to 2016/17, the Council forecasts a significant budget gap of £5.159m. Encouragingly efficiencies for 2014/15 have already been fully delivered, but there remains a considerable challenge going forward. The Council remains in line with its stated policy of maintaining general fund reserves at or around £2m and is in line with the s151 officer's assessment of the level of general fund balances needed in the context of current risks. It remains important that the Council keeps this under close review in the context of changing risks and uncertainties around the financial position in the medium to long term.

During 2013, the Council made a major acquisition by purchasing Market Walk at a cost of £23.341m. This was a significant decision for the Council and was subject to detailed scrutiny and challenge from Council members and has demonstrated good governance principles. The final decision was made following appropriate due diligence processes and use of relevant consultants to provide advice on the inherent risks, valuation, funding implications and future income potential. The identified risks and opportunities were clearly and openly communicated to members together with relevant considerations of how to minimise any risks.

# Value for Money

Following acquisition, the Council has updated its normal governance processes to ensure it can effectively monitor the performance and risks associated with this development. It is now developing its plans for the centre linked to its overall strategy for the town centre development.

## **Challenging economy, efficiency and effectiveness**

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed the following reviews:

- prioritising resources; and
- improving efficiency and productivity

The Council continues to adopt a flexible and challenging approach to the way it delivers its services. The Council is not afraid to think progressively when it comes to identifying ways to ensure that its resources are effectively used. The recent decision to purchase the Market Walk shopping centre is an example where the Council was prepared to be innovative to identify additional income streams, whilst actioning wider corporate objectives. The risks were clearly evaluated as part of the decision making process and actions taken to minimise them where possible.

The Council has a good understanding of its costs and this enables it to make informed decisions based on accurate information. Regular budget monitoring also ensures that the latest available information can be used to assess how well placed the Council is to deliver its efficiency targets and meet its forecasts for income and expenditure levels. The Council continues to demonstrate a track record of

delivering savings and has achieved efficiencies of over £1.8m over the last two years.

## **Overall VFM conclusion**

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance</b>	<p>The Council continues to demonstrate good financial performance. During 2013/14 the Council achieved an underspend during the year of £0.149m compared to its revised budget. Short term investments and cash and cash equivalents fell, as a result of using £10m of internal cash balances to help fund the Council's acquisition of the Market Walk Shopping Centre. The use of internal balances allowed savings in the financing cost to be achieved as a result of having to borrow less. The Council felt that the impact on its liquidity position could be managed and that it was better it to use cash balances to avoid borrowing at rates that could have exceeded 4% rather than to invest at as little as the 0.25%. The purchase has however, seen the borrowing levels increase significantly during the year.</p> <p>The Council's level of general balances has increased during the year by £129,000 to £2.189m, still just above the £2m limit set in the Council's medium term financial strategy. The Council also has £4.3m of earmarked reserves to be used for specific purposes. The continued financial uncertainty affecting local government means that it remains critical the Council keeps the level of general fund balances under close review.</p> <p>The Council has also seen an 11% reduction in the average number of days lost per employee due to sickness ( 6.44 days in 2013/14, 7.27 days in 2012/13). The actions put in place by the Council to address the increase seen in sickness absence in 2012/13 has started to pay dividends.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Strategic financial planning</b>	<p>The Council has sound financial planning and review processes in place. Each year the Council sets a three year Medium Term Financial Strategy (MTFS), with the current strategy covering the financial period 2014/15 – 2016/17. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams, for example by not factoring in 2014/15 new homes bonus income into its base budget. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding.</p> <p>The MTFS highlights that over the next few years there remains a significant budget gap of £0.903m in 2014/15, £1.547m in 2015/16 and £2.709m in 2016/17. The Council has already achieved the required level of savings for 2014/15 and has set out a number of options that the Council will consider to cover the budget gap for 2015-2017. Whilst there remains a considerable challenge ahead of the Council to address the future budget gap, the Council does have a good track record of delivering savings.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	<p>Financial governance arrangements at the Council are good. The Council has a well established approach to financial governance with all executive members and senior officers involved in the budget process. They have demonstrated a good understanding of the financial environment and the challenges facing the Council. Members provide a robust challenge on financial matters. There is engagement with staff at all levels as part of the service planning process and the budget consultation exercise ensures that the public also has the opportunity to comment on proposals.</p> <p>Performance against budget and progress against cost savings is reported quarterly to the Executive Cabinet. The Council also regularly reports its corporate performance to members on a quarterly basis.</p>	<b>Green</b>	<b>Green</b>
<b>Financial control</b>	<p>The Council has a robust and effective business planning and budget setting process and maintaining spend within budget is seen as a priority. The Council manages budgets well and has a</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Financial control</b>	<p>good track record in achieving the overall budget and mitigating any overspends identified in year. This year budget monitoring has been strengthened to include detailed monitoring of the performance of the Market Walk shopping centre. The 2013/14 outturn report shows that the Council achieved an underspend of £0.149m.</p> <p>Through the business planning process, the Council has a good understanding of its costs and performance and considers different ways of bridging the funding gap either through service redesign or additional income generating schemes.</p> <p>The Council has made savings of over £1.8m in the last two years and has already delivered £0.903m savings for 2014/15, all of its target for the year. This is a positive achievement given the current financial and economic background.</p> <p>The key financial systems provide reliable and timely financial monitoring information to enable the Council to identify and manage financial risks.</p>	<b>Green</b>	<b>Green</b>
<b>Prioritising resources</b>	<p>Senior management and members work well together developing the Council's priorities and the MTFS. The MTFS is at the forefront of the Council's business, through its annual review and via the quarterly reporting of performance against the budget. Members are not afraid to offer challenge and scrutiny when required. The Council has a track record and continues to challenge the way services are delivered. Recent exercises include front office review and the strategic housing review. In addition, the Council has recently purchased the Market Walk shopping centre as part of its economic regeneration policy for the Chorley town centre. This will also provide a valuable income stream for the Council.</p> <p>The Council proactively challenges the way services can be delivered or where efficiencies can be achieved. Recent examples include:</p> <ul style="list-style-type: none"> <li>bringing back in-house the Council's property services function following the end of its contract with Liberata. The Council was not satisfied with the price quoted by the company when the contract came up for renewal and the Council felt it could provide the service more cost effectively in-house and so chose not to renew the existing contract.</li> </ul>	<b>Green</b>	<b>Green</b>



Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Prioritising resources</b>	<ul style="list-style-type: none"> <li>recent discussions with a neighbouring council around the potential to align timelines for the waste contract. This would enable a joint procurement to take place in 2021 which could potentially bring financial benefits for both Councils.</li> </ul> <p>The Council continues to have clear information on costs to help inform decision making. Budget monitoring and service and performance reports continue to be reported to the Scrutiny Committee and the Executive Committees.</p>	<b>Green</b>	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	<p>The Council has a proven track record of delivering savings having achieved approximately £2.4m over the last three years. In addition the Council has already achieved all of its 2014/15 budgetary savings allowing it to forecast a balanced budget for the year. Despite the need to achieve efficiencies the Council's overall performance continues to be good, with 72% of the corporate strategy measures and 86% of key service measures were performing above target or within 5%.</p>	<b>Green</b>	<b>Green</b>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Per Audit plan £	Actual fees £
Council audit *	59,440	60,340
Grant certification	12,350	12,350
<b>Total audit fees</b>	<b>71,790</b>	<b>72,690</b>

\* During the year there was a one off fee rebate issue by the Audit Commission of £8,134 which reduced the Council's net audit fee for the year. There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for district councils and has been agreed by the Audit Commission.

## Fees for other services

Service	Fees £
None	Nil

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

**Priority**

**Significant deficiency** – risk of significant misstatement

**Deficiency** - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	A more formal review of the Council's bank reconciliation should be introduced, with clear evidence that a level of checking has been undertaken.	Deficiency	Agreed	S.Guinness 31/10/2014

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

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

### **Opinion on the Authority financial statements**

We have audited the financial statements of Chorley Borough Council for the year ended 31 March 2014 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 Collection Fund 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 Authority Accounting in the United Kingdom 2013/14.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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 Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our 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 us 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 Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to

identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements: give a true and fair view of the financial position of Chorley Borough Council as at 31 March 2014 and of its expenditure and income 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 2013/14 and applicable law.

### **Opinion on other matters**

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

### **Matters on which we report by exception**

We report to you if: in our 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; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

#### ***Respective responsibilities of the Authority and the auditor***

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.



We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority'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***

We have undertaken our 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 2013, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are 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 2014.

**Certificate**

We certify that we have completed the audit of the financial statements 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

Associate Director  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
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