

# The Annual Audit Letter for Chorley Council

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**Year ending 31 March 2016**

October 2016

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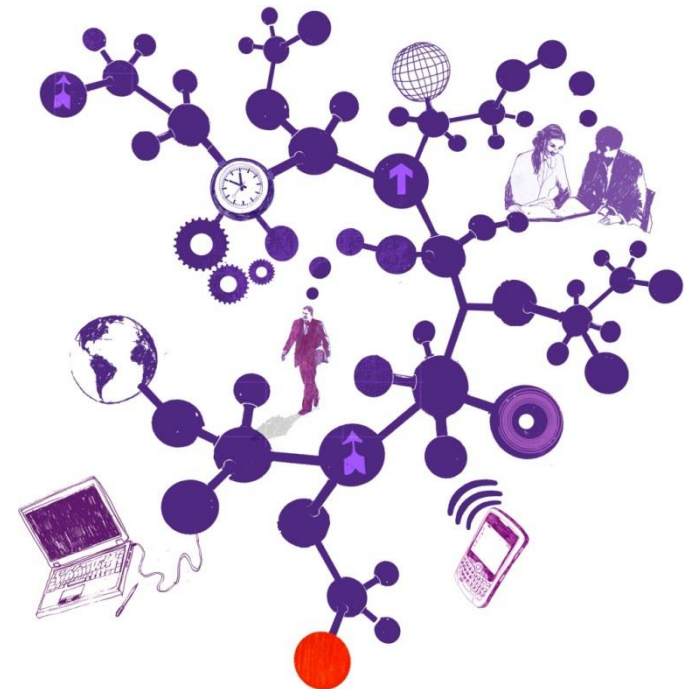
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Chorley Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 14th September 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 21st September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 21st September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Chorley Council in accordance with the requirements of the Code on 21st September 2016.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Governance Committee in our Annual Certification Letter.

## **Working with the Council**

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £0.914m. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality for certain areas such as officers' remuneration, audit remuneration and related party disclosures. We set a lower threshold of £0.046m above which we reported errors to the Governance Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts Chorley Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As part of our audit work we have considered the risk factors set out in ISA240 and the nature of the revenue streams at Chorley Council. We determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Chorley Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented the controls applied to journal entries;</li> <li>• tested journal entries;</li> <li>• reviewed accounting estimates, judgments and decisions made by management; and</li> <li>• reviewed any unusual significant transactions.</li> </ul> <p>Our audit work did not identified any evidence of management over-ride of controls</p>

# Audit of the accounts Chorley Council

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate;</li> <li>• reviewed the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work;</li> <li>• tested additions and revaluations made during the year to ensure they are input correctly into the Council's asset register; and</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified. We did identify from discussions with the Council's valuer that there were a number of assets which were not recorded on the Council's asset register and not subsequently on the balance sheet.</p> <p>However, we were provided with assurances from the valuer that the likely value of those assets in total was not material and therefore the valuation on the balance sheet was not materially mis-stated.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated;</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;</li> <li>• confirmed the reasonableness of the actuarial assumptions made; and</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>We did not identify any issues to report.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 21st September 2016, in advance of the 30 September 2016 national deadline. The Council made the accounts available for audit in line with the agreed timetable, and the finance team responded promptly to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Governance Committee on 14th September 2016.

In addition to the key audit risks reported above, the Council was not required to make any changes to the primary financial statements arising from the audit, and consequently there was no change to the reported financial position

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. These were published on the Council's website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with supporting evidence and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts

There were no instances where we needed to use these powers.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

## Key findings

As part of our work we saw strong evidence that:

- the Council continues to use business cases to support decision making for major projects. Recent examples include the extension of the Market Walk Shopping Centre and a review of the options for the Waste Collection contract.
- the Council is constantly reviewing the way it delivers services and how it can work smarter with its partners. The work with Lancashire Care NHS Foundation Trust around the creation of an integrated community wellbeing service for Chorley, is a prime example of how the Council is working with local partners to be at the forefront of shaping services for the residents of Chorley.

With regard to its finances the Council's out-turn position at the end of 2015/16 showed an underspend of £0.188m. The Council has also been successful in delivering budgetary savings of £0.708m whilst also maintaining services.

The Council has also planned to deliver a balanced budget for 2016/17 with budget efficiency savings totalling £0.214m having been applied to the budget to

achieve this. However, the Council has a significant budget gap up to 2018/19 which is currently estimated at £3.4m. Whilst the financial environment in which the Council is operating continues to be difficult, given its track record of delivering efficiencies, performing well and its pro active approach to income generation and service re-design, the Council, is well placed to meet such challenges.

## Overall VfM conclusion

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 2016



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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit nine days before the deadline. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

**Improved financial processes** – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment.

**Understanding your operational health** – through the value for money conclusion we provided you with assurance on your operational effectiveness.

**Sharing our insight** – we provided regular Governance Committee updates covering best practice. We have shared with your details of our thought leadership reports including Innovation in Public Financial Management, Reforging Local Government and Building a Successful Joint Venture Company. We will continue to support you as you consider greater use of alternative delivery models for your services.

**Providing training** – we provided your Shared Financial Services team with training on early closedown of final accounts and the lessons learnt from elsewhere, to help you bring forward the production of your year end accounts.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	45,255	45,255	53,331
Housing Benefit Grant Certification	6,798	*6,798	8,910
<b>Total fees (excluding VAT)</b>	<b>52,053</b>	<b>52,053</b>	<b>62,241</b>

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

\* - housing benefit certification work is on-going and the audit fee may vary in the event of significant issues being identified.

## Fees for other services

Service	Fees £
Audit and non audit related services	Nil

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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