

# The Audit Findings for Chorley Borough Council

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**Year ended 31 March 2017**

20 September 2017

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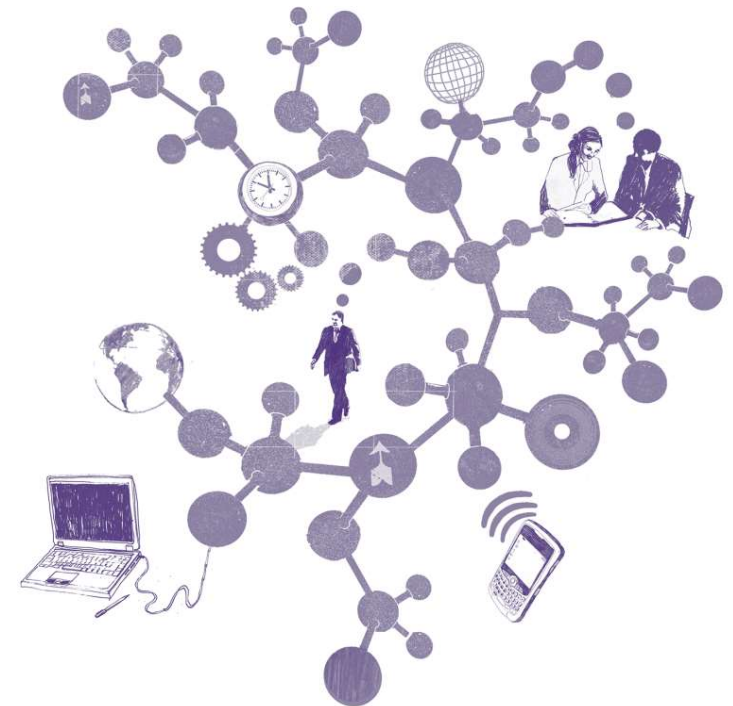
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20 September 2017

Dear Governance Committee

### **Audit Findings for Chorley Borough Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Chorley Borough Council, the Governance Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Mark Heap

Engagement lead

#### **Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Chorley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 8 March 2017.

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

- finalising our audit testing – we will update Members of the Committee of progress at the meeting on 20<sup>th</sup> September
- completing the final review of the file by the Engagement Lead and Manager
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, on 23 June 2017.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified one adjustment that has amended the Council's reported financial position. However, this is essentially a timing issue and does not reduce the level of resources available in 2017/18. Details are recorded in section two of this report. The draft financial statements for the year ended 31 March 2017 recorded net cost of services expenditure of £17,448k; the audited financial statements show net expenditure of £17,448k. We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- A £2.4m grant was incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES) in 2016/17 as the conditions set out in the agreement with the Homes and Communities Agency (HCA) have not been met
- One issue was identified where the Council decided not to amend as they concluded it did not have a material impact on the understanding of the financial statements
- A small number of disclosure issues were also amended

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. Whilst we requested a small number of amendments to the AGS we are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **Controls**

### **Roles and responsibilities**

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.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Governance Committee which is due in February 2018.

## **The way forward**

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

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with Officers.

## **Acknowledgement**

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 2017

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

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05. Fees, non audit services and independence

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,065,000 being 2% of gross revenue expenditure. We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £53,000. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

| Balance/transaction/disclosure   | Explanation   | Materiality level |
|--|---|-------------------|
| <b>Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements</b> | Due to public interest in these disclosures and the statutory requirement for them to be made.  | £20,000           |
| <b>Related Party Transactions</b>  | Due to public interest in these disclosures and the requirement for them to be made (misstatements will also be evaluated by reference to how material they are to the other party) | £20,000           |

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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   |
|---|--|---|
| <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.</p> <p>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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Chorley Borough Council, we have 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 Borough 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>Review of accounting estimates, judgments and decisions made by management</p> <p>Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</p> <p>Review of unusual significant transactions</p>   | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> |

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

| Risks identified in our audit plan  | Work completed   | Assurance gained and issues arising  |
|---|--|--|
| <p><b>The expenditure cycle includes fraudulent transactions</b><br/>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered.</p> | <ul style="list-style-type: none"> <li>Updating of our understanding and documentation of the processes and controls in place to account for operating expenses.</li> <li>Perform walkthrough testing of controls in place</li> <li>Substantive testing of expenditure within the comprehensive income and expenditure statement ensuring valid spend.</li> <li>Testing of payables and accrued expenditure including reviewing post year end invoices and payments</li> </ul>   | <p>Appropriate assurance gained and no issues arising.</p>                             |
| <p><b>Valuation of pension fund net liability</b><br/>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>  | <ul style="list-style-type: none"> <li>identify the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out.</li> <li>undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>review 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 are finalising our review, however there are currently no issues identified.</p> |

## Audit findings against significant risks continued

| Risks identified in our audit plan  | Work completed   | Assurance gained and issues arising  |
|---|--|--|
| <p><b>Valuation of property, plant and equipment</b><br/>                     The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements</p> | <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of 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>We have completed the majority of the work; we are awaiting the final evidence.</p> <p>Our review of asset disposals in the year identified gross adjustments of £1.66m cost, and £1.165m of accumulated depreciation relating to the removal of a number of items of assets that were considered to be no longer in operational use.</p> <p>They were fully written down in the authority's asset register, but had not been removed at the time the item ceased to be operational. The finance team plan to include an additional step in their closure programme, for future years, to include a comprehensive review to ensure that scrapped or obsolete items are removed from the accounting records as soon as practically possible.</p> |

# 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>Employee remuneration</b> | Employee remuneration accruals are understated   | <p>Update our understanding and documentation of the processes and controls in place to account for operating expenses</p> <p>Perform walkthrough testing of controls in place</p> <p>Substantive testing of expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement</p> <p>Sample testing of payables and accrued expenditure including reviewing post year end invoices and payments</p> | <p>We are finalising our review of employee remuneration. One minor issue identified is that the main working paper to support the senior officer remuneration is a spreadsheet. We would usually expect prime documentation, such as copy year-end payslips, to be the main supporting evidence. In completing our testing of the senior officer remuneration note we identified two minor errors in the figures.</p> |
| <b>Operating expenses</b>    | Year end creditors and accruals are understated or not recorded in the correct period. | <p>Update our understanding and documentation of the processes and controls in place to account for operating expenses</p> <p>Perform walkthrough testing of controls in place</p> <p>Substantive testing of expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement</p> <p>Sample testing of payables and accrued expenditure including reviewing post year end invoices and payments</p> | <p>Our testing identified two accruals which had limited evidence to support them. Subsequently one of the accruals was not required and has been reversed in 2017/18.</p>   |

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

| Transaction cycle   | Description of risk   | Work completed  | Assurance gained & issues arising   |
|---|---|---|---|
| <p><b>Changes to the presentation of local authority financial statements</b></p> | <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Document and evaluate the process for recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>• Review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure.</li> <li>• Review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>• Test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>• Test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>• Test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>• Review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul> | <p>Code para 3.4.2.101 highlights that the new requirements require full retrospective restatement in accordance with section 3.3, paragraph 3.4.2.31 and IAS 1.' The Code says at para 3.3.4.2 that as well as giving the reason for the restatement, 'for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected' should be disclosed. No such disclosure has been made. We therefore discussed with the finance team:</p> <ul style="list-style-type: none"> <li>• the Council's understanding of the applicable Code paragraphs</li> <li>• the overall conclusion on whether you feel that a line by line disclosure is required and disclosed</li> <li>• whether or not any non-disclosure has a material impact on the understanding of the accounts for the user of the accounts.</li> </ul> <p>After reviewing other sets of accounts and the changes to the CIES it was concluded that such a disclosure would not add any understanding to the reader of the accounts. We requested that such a disclosure note was included in the financial statements. The Council however decided not to include the note and we accepted the explanation that omitting the disclosure did not have a material impact on the reader's understanding of the financial statements.</p> |



# Significant matters discussed with management

The section addresses the requirement to communicate with those charged with governance ‘significant matters, if any, arising from the audit that were discussed or subject to correspondence with management’. The items in the table below are those include as examples in ISA 260.

|   | Significant matter  | Commentary  | Conclusion                                    |
|---|---|---|---|
| 1 | Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement.                           | No such items in relation to the financial statements. We did consider the Council’s medium term financial strategy as part of the VfM Conclusion work, but this section of our report only relates to the risk of material misstatement within the financial statements. | No issue to raise in relation to this matter. |
| 2 | Concerns about management's consultations with other accountants on accounting or auditing matters  | No issues considered  | No issue to raise in relation to this matter. |
| 3 | Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services. | No such discussion. We have highlighted to management the material misstatement in relation to capital grant treatment..  | No issue to raise in relation to this matter  |

# Accounting policies, estimates and 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>      | <ul style="list-style-type: none"> <li>• Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>• Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>• Revenue from non-exchange transactions shall be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the authority, and the amount of the revenue can be measured reliably.</li> </ul> | <p>The policy is adequate. However, it could be enhanced further to specifically reference sources of income such as grants, council tax and business rates.</p> |  |
| <b>Judgements and estimates</b> | <ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> <li>– Provision for NNDR appeals</li> <li>– Other provisions</li> </ul> </li> </ul>   | <p>No issues currently identified.</p>   |  |

**Assessment**



# Accounting policies, estimates and judgements continued

| Accounting area                  | Summary of policy  | Comments  | Assessment  |
|----------------------------------|--|---|---|
| <b>Going concern</b>             | The s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.  |  |
| <b>Other accounting policies</b> | The accounting policies are used to ensure the Council's financial position is fairly presented.   | We are finalising our review of other accounting policies and no major issues have currently been identified. One amendment has been made in relation to strengthening the Cash and Cash Equivalents Accounting Policy. |  |

**Assessment**

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 material incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>                                     |
| 2. | <b>Matters in relation to related parties</b>      | <ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>   |
| 3. | <b>Matters in relation to laws and regulations</b> | <ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>   |
| 4. | <b>Written representations</b>                     | <ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>   |
| 5. | <b>Confirmation requests from third parties</b>    | <ul style="list-style-type: none"> <li>We have received responses to all of our confirmation requests from third parties.</li> </ul>   |
| 6. | <b>Disclosures</b>                                 | <ul style="list-style-type: none"> <li>We found a small number of issues which required amending and these are detailed later in this report.</li> <li>Completion of the disclosure checklist when completing the accounts can minimise such issues. However, this was only partially completed during our audit.</li> </ul> |

## Other communication requirements continued

|    | Issue  | Commentary  |
|----|--|---|
| 7. | <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a number of areas:</p> <p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul> <p>We did request some minor amendments to both the Narrative Report and the AGS, which have been made in the final version of each item.</p> |
| 8. | <b>Specified procedures for Whole of Government Accounts</b> | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• Note that work is not required as the Council does not exceed the threshold;</li> </ul>   |

## Internal controls – review of issues raised in prior year

|    | Assessment | Issue and risk previously communicated  | Update on actions taken to address the issue   |
|----|------------|---|--|
| 1. | ✓          | <p><b>Payroll walkthrough</b></p> <p>As part of our walk through test to establish whether payroll controls are operating as expected, we identified that for the employee selected the Council's system would not have been used to record sickness and leave.</p> | <p>When completing the walkthrough, this year, we were advised that the system has been replaced with the new Time Management System, which was introduced in September 2016, and by the end of October all employees were set up on the system, with the exception of casual staff.</p> |

**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

| Detail  | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000  | Impact on total net<br>expenditure<br>£'000 |
|---|--|---|---|
| 1 The Council incorrectly accounted for a capital grant, paid via the Homes and Communities Agency (HCA). The grant was incorrectly credited to CIES even though the conditions of the grant, set out in the agreement with the HCA dated 21 December 2016, had not been met. Grant should not be credited to the CIES until the conditions have been met. It is expected to be included in the CIES in 2017/18. This also resulted in amendments to the Cash Flow Statement and related notes. | 2,404  | (2,404)   | 2,404                                       |
| 2 The balance sheet incorrectly separately identified a bank overdraft of £834k. The balance is an integral part of the Council's cash management, rather than an arrangement for borrowing, and should therefore be included in the cash and cash equivalents balance.   | 0  | 0<br>Debit: Bank overdraft<br>£834k<br>Credit: Cash and cash<br>equivalents £834k | 0   |
| 3 In reviewing a difference between the general ledger and the Collection Fund working papers a difference of £136k was identified. It relates to a balance that was cleared from Suspense after posting the NNDR journals and completing NNDR1. Both debtors and creditors are understated by the same amount.   |  | 0   |   |
| <b>Overall impact</b>   | <b>£2,400</b>  | <b>(£2,400)</b>   | <b>£2,400</b>                               |

# Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail   | Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£'000 | Balance Sheet<br>£'000 | Reason for not adjusting                                |
|--|--|------------------------|---|
| 1 Code para 3.4.2.101 highlights that the new requirements require full retrospective restatement in accordance with section 3.3, paragraph 3.4.2.31 and IAS 1.' The Code says at para 3.3.4.2 that as well as giving the reason for the restatement, 'for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected' should be disclosed. No such disclosure has been made. | 0  | 0                      | No material impact on the understanding of the accounts |
| 2  |  |                        |   |
| 3  |  |                        |   |
| <b>Overall impact</b>  | <b>£0</b>  | <b>£0</b>              |   |

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value<br>£'000 | Account balance                                   | Impact on the financial statements  |
|-----------------|----------------|---|---|
| 1 Disclosure    |                | Note 36b – Leases                                 | There was an error in the spreadsheet to calculate future lease income, which meant that the comparative figures were materially misstated. The error was identified through our analytical review of the Council's accounts. |
| 2 Disclosure    | 5              | Note 32 – Auditors Remuneration                   | During 2016/17 Grant Thornton completed additional work with Chorley Council relating to income generation. This needed to be disclosed in the auditors remuneration note.  |
| 3 Disclosure    | 2,490          | Note 5 – Material Items of Income and Expenditure | Note amended to include the disposal of land at Cowling Farm, Eaves Green and Greenside.  |
| 4 Disclosure    |                | Narrative Report                                  | Amended to give further detail on the general fund position and also to ensure consistency in relation to cash and cash equivalents.  |
| 5               |                |   |   |
| 6               |                |   |   |

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters



## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 8 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The financial position of the Council
- The plans being produced to bridge the budget gap set out in the Medium Term Financial Strategy
- The development of the risk management arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 28 to 29.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

### **Recommendations for improvement**

Any recommendations from our VfM Conclusion work can be found at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk   | Work to address   | Findings and conclusions   |
|--|---|--|
| <p><b>Medium term financial planning</b><br/>                     The medium term financial strategy is based on a number of assumptions that will result in the Council overcoming the current estimated gross cumulative budget deficit in 2019/20 of £3.333m. This includes budget contributions in savings or income of £1.350m from transformation. There is a risk that if this transformation of services does not happen then the Council's financial strategy may not be sustainable in future years.</p> | <p>We considered the arrangements for the development of the three areas of transformation in the medium term financial strategy. This included:</p> <ul style="list-style-type: none"> <li>Looking at how the Council is developing shared services with South Ribble Borough Council</li> <li>Reviewing how partnership arrangements are developing with Lancashire Care Foundation Trust</li> <li>Gaining an understanding of the arrangements in place to ensure major capital schemes are delivered appropriately.</li> </ul> <p>For each of the three transformation areas we will ensure that there is documentation to support the expected financial benefit to the Council.</p> | <p>It is important that the Council continues to work to ensure that the key savings schemes are achieved. A review of the Council's balance sheet shows that the Council does have almost £10.5m of general fund reserves. Over £7m of these are earmarked whilst the Council held no short term investments as at 31 March 2017, whilst current liabilities totalled more than current assets by over 1.2m. The Council does have a good track record of meeting budgets and were able to increase the general fund reserves by £924k in 2016/17.</p> <p>We therefore looked at the key schemes from the MTFs that are to fill the budget gap, estimated to be £3.3m by 2019/20. We examined in particular the:</p> <ul style="list-style-type: none"> <li>shared service arrangement with South Ribble Borough Council (planned saving of £650k)</li> <li>partnership arrangements with Lancashire Care FT</li> <li>major capital schemes e.g. Market Walk</li> <li>changes to the waste collection service.</li> </ul> <p>For each of the items the Council provided a number of documents to support the development of each of the schemes. The documents demonstrate that there has been much planning for each area, including regular updates to members. Whilst detailed evidence in relation to the schemes was not provided in all cases, and the plans around shared service arrangements are still developing, there is sufficient documentation to show that there is a clear basis to support the items within the MTFs.</p> |

### Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk  | Work to address   | Findings and conclusions   |
|---|---|--|
| <p><b>Risk management arrangements</b><br/>The Annual Governance Statement highlighted that there was a need to embed the risk management framework at service level. At the same time the Governance Committee receives a report annually detailing the strategic risks at the Council. There is a risk that if appropriate risk management arrangements are not in place then the Council may be exposed to unmitigated risks</p> | <p>We will review the actions undertaken to embed the risk management framework across services and also how members are updated on risks to help inform their decision making.</p> | <p>The 2015/16 AGS highlighted that there was a need to embed the risk management framework at service level across the Council. We are pleased to report that progress has been made during 2016/17. Risk management frameworks are in place, and an extensive amount of work is currently underway to develop and upgrade these further. The Council’s existing risk management arrangements are “owned” by the Policy Team, and the requirement for clear risk identification and management is written into the Council’s policies and procedures. In addition, all corporate projects are required to maintain a risk register. Members are informed of the risk framework and activities primarily through regular reports to the Governance Committee. Service planning is in place and there are detailed risk identification requirements included with service risk registers in place and owned/maintained by the individual services.</p> <p>In addition, the Council is now implementing an upgraded automated corporate risk register using a new risk management system. The initial emphasis for transition to this system will be on key projects, procurement and partnerships. Members have been sighted on the new system, which is currently being populated further.</p> <p>The Council is due to relaunch its service planning arrangements during 2017/18 using the new system. Looking ahead, the further system developments will enable the Internal Audit team to move away from risk identification and management further towards a detailed testing approach to prove the effectiveness of the systems in place.</p> <p>It is clear that the Council has rowed back from its decision to dispense with service risk management, and all services are now required to have detailed risk registers. In addition, further plans are in hand to develop the Council’s risk management framework using more automation and more proactive involvement of members.</p> <p>The VFM Conclusion risk has therefore been mitigated</p> |

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

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# Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

|    | Issue  | Commentary   |
|----|--|--|
| 1. | <b>Public interest report</b>  | <ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued</li></ul>      |
| 2. | <b>Written recommendations</b>   | <ul style="list-style-type: none"><li>• We have not made any written recommendations that the Council is required to respond to publicly</li></ul> |
| 3. | <b>Application to the court for a declaration that an item of account is contrary to law</b> | <ul style="list-style-type: none"><li>• We confirm that we have not used this duty</li></ul>   |
| 4. | <b>Issue of an advisory notice</b>   | <ul style="list-style-type: none"><li>• We confirm that we have not used this duty</li></ul>   |
| 5. | <b>Application for judicial review</b>   | <ul style="list-style-type: none"><li>• We confirm that we have not used this duty</li></ul>   |

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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

06. Communication of audit matters



We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

|   | Proposed fee<br>£ | Final fee<br>£ |
|---|-------------------|----------------|
| Council audit                           | 45,255            | 45,255         |
| Grant certification                     | 6,683             | tbc            |
| <b>Total audit fees (excluding VAT)</b> | <b>51,938</b>     | <b>tbc</b>     |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. We will be able to confirm those fees after the completion of our certification of the housing benefit subsidy claim, which should be completed in November 2017. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
  - 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

### Fees for other services

| Service                                  | Fees £     |
|--|------------|
| <b>Audit related services:</b>           |            |
| • HCA                                    | <b>Tbc</b> |
| <b>Non-audit services:</b>               |            |
| • Income Generation - Independent Review | 4,991      |

## Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

|  | Service provided to     | Fees  | Threat? | Safeguard   |
|--|-------------------------|-------|---------|---|
| <b>Audit related services</b>          |                         |       |         |   |
| <b>Non-audit services</b>              |                         |       |         |   |
| Income Generation - Independent Review | Chorley Borough Council | 4,991 | No      | This was a non-audit assignment where Grant Thornton provided expertise from its Local Government Advisory team, which is separate from the audit team. |
|  | <b>TOTAL</b>            | 4,991 |         |   |

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

| Our communication plan   | Audit Plan | Audit Findings |
|--|------------|----------------|
| 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.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>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   |            | ✓              |
| Non compliance with laws and regulations   |            | ✓              |
| Expected modifications to auditor's report, or emphasis of matter  |            | ✓              |
| Unadjusted misstatements and material disclosure omissions   |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   | ✓          | ✓              |

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# Appendices

- A. Action Plan
- B. Audit Opinion

# A. Action plan

## Priority

| Rec no. | Recommendation   | Priority | Management response | Implementation date and responsibility |
|---------|--|----------|---------------------|--|
| 1       | Grants should only be credited to the CIES when conditions have been appropriately met.  | High     |                     |  |
| 2       | Bank overdrafts should be included in the cash and cash equivalents amount   | Medium   |                     |  |
| 3       | Consider specifically mentioning income such as council tax, business rates and grants in the revenue recognition accounting policy. | Medium   |                     |  |
| 4       | The disclosure checklist should be completed as the financial statements are being prepared.   | Medium   |                     |  |

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Appendix B: Draft proposed audit opinion

## We anticipate we will provide an unqualified opinion

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

We have audited the financial statements of Chorley Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Responsibilities for the Statement of Accounts, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Narrative Report and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

#### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Mark Heap  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
4 Hardman Street  
Manchester  
M3 3EB

To be dated September 2017



# Appendix C: Draft proposed letter of representation

## To be provided on the Council's letter headed paper

Grant Thornton UK LLP  
4 Hardman Street  
Manchester  
M3 3EB

xx September 2017

Dear Sirs

### **Chorley Borough Council**

### **Financial Statements for the year ended 31 March 2017**

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of 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 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

- i. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- ii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iii. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- iv. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- v. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- viii. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- i. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

# Appendix C: Draft proposed letter of representation

**To be provided on the Council's letter headed paper**

i. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

i. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are **[either]** immaterial to the results of the Council and its financial position at the year-end **[or]** for the reasons noted on the schedule **[or]** for the reasons noted below :

- **[list other reasons]**

The financial statements are free of material misstatements, including omissions.

- i. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- ii. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

**Information Provided**

- i. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- ii. We have communicated to you all deficiencies in internal control of which management is aware.
- iii.

- i. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- ii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- iii. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- iv. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- v. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- vi. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- vii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

- i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

- i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the **[\*\*Council's Cabinet/Audit Committee\*\*]** at its meeting on.

# Appendix C: Draft proposed letter of representation

**To be provided on the Council's letter headed paper**

**Approval**

The approval of this letter of representation was minuted by the Governance **Committee** at its meeting on.

Yours faithfully

Name.....

Position.....

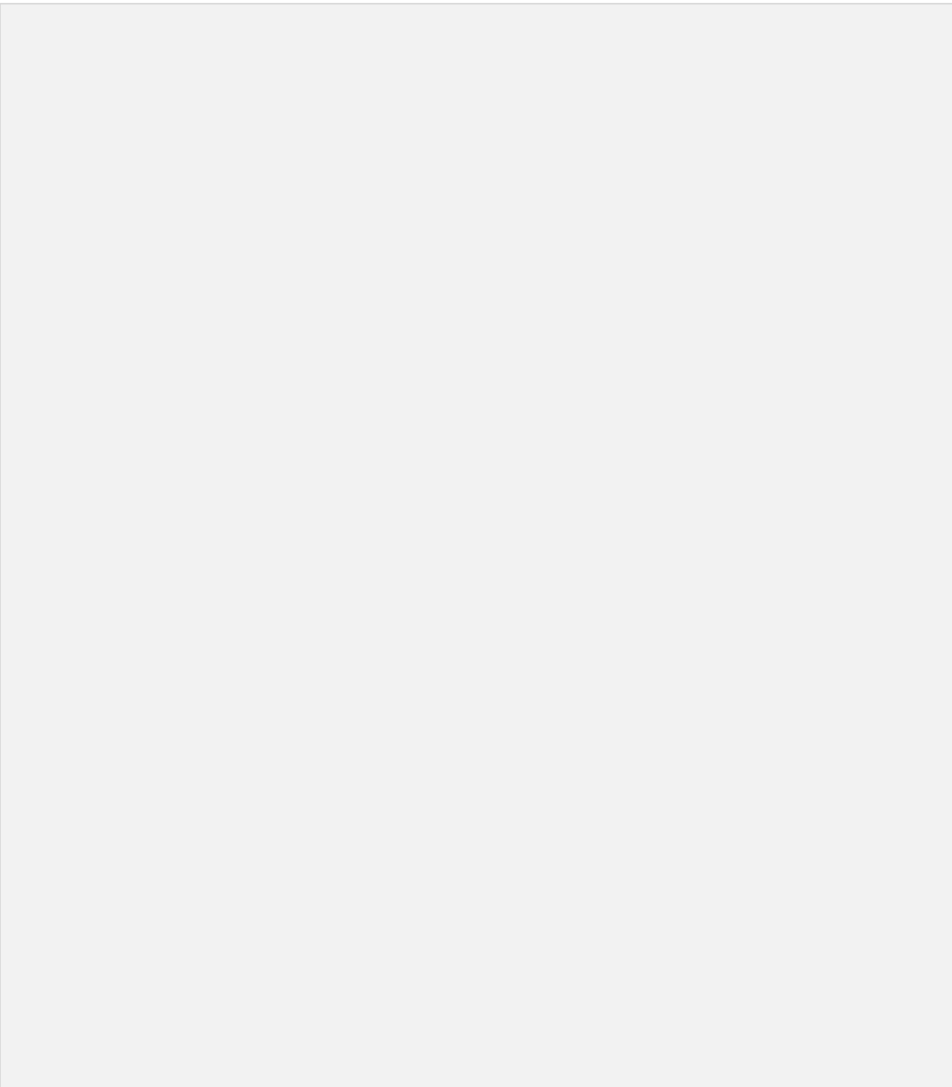
Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council





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