

# The Annual Audit Letter for Chorley Borough Council

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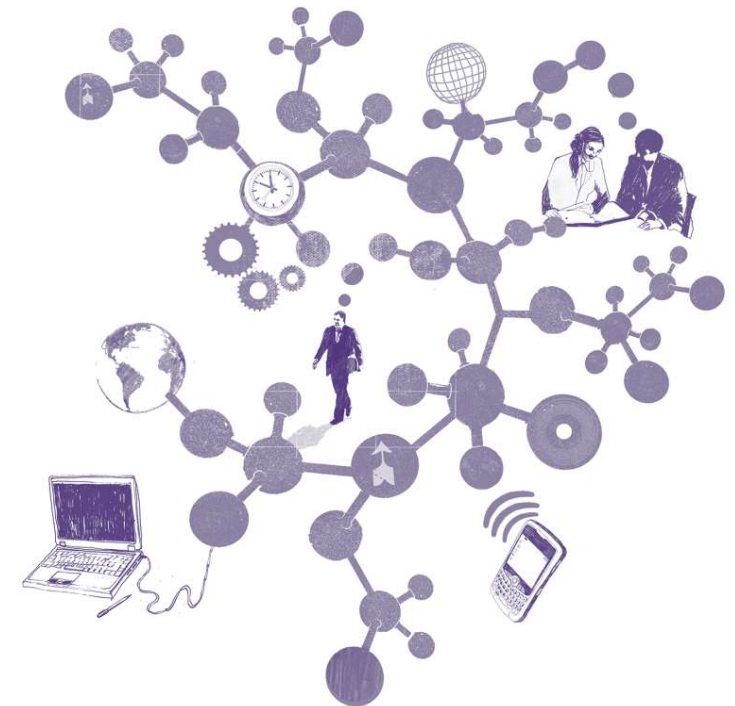
**Year ended 31 March 2017**

18 October 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Chorley Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 20 September 2017.

## **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 28 September 2017.

### **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 2017. We reflected this in our audit opinion on 28 September 2017.

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## **Certificate**

We certified that we had completed the audit of the accounts of Chorley Borough Council in accordance with the requirements of the Code on 28 September 2017.

## **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 2017. We will report the results of this work to the Governance Committee in our Annual Certification Letter.

## **Other work completed**

Our local government advisory team completed an independent review of the Council's income generation to provide senior officers with the latest insight on good practice to inform the development of outline business cases.

## **Working with the Council**

During the year we have enjoyed a good working relationship with the Council. Our regular meetings with the management team have enabled us to complete an audit focussed on relevant risks. This helped inform our audit plan issued in March 2017 and enabled us to complete our focussed audit work by the statutory deadline.

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 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1.065 million, which is approximately 2% of the Council's gross revenue expenditure. 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 specific materiality for the identification of related parties and senior officer remuneration.

We set a lower threshold of £53,000, 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 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 the Chief Finance Officer 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 included in the Statement of Accounts on which we gave 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 Borough 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	Findings and conclusions
<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 represent a significant estimate in the financial statements.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li> <li>assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>reviewed 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>undertook procedures to confirm the reasonableness of the actuarial assumptions made.</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>The overall conclusion is that the pension fund liability is materially correct and we found no issues to report in our Audit Findings Report presented to the Governance Committee on 20 September 2017.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>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>	<p>We:</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>corresponded with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>tested revaluations made during the year to ensure they are input correctly into the Council's asset register</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>The overall conclusion is that the valuation of property, plant and equipment is materially correct. One issue identified is that there were some items on the asset register that were no longer operational. The assets had been fully written down in the asset register, but had not been removed at the time the item ceased to be operational. This had no impact on the valuation of PPE within the financial statements. New procedures will ensure that scrapped or obsolete items are removed from the accounting records as soon as practically possible.</p>

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# Audit of the accounts

## Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

The Council authorised the accounts available for audit on 23 June 2017 and provided appropriate supporting working papers. The finance team responded as required to our queries during 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 Governance Committee on 20 September 2017. In addition to the key significant audit risks reported above, we identified the following issues during our audit that we have asked the Council's management to address for the next financial year:

- We identified a grant of £2.404m that had been incorrectly credited to the Comprehensive Income and Expenditure Statement (CIES), even though there was no evidence provided to demonstrate that the conditions of the grant had been met. We have reminded the Council that grants should only be credited to the CIES when conditions had been met and an amendment was made to the 2016/17 statements to correct this item
- The Balance Sheet showed both a 'cash and cash equivalents' figure and a separate balance for a bank overdraft. However the overdraft is an integral part of its cash management and not a separate arrangement for borrowing. The Council amended its accounts and a recommendation was made to help ensure the accuracy of the balance in future years
- We concluded that the Council's revenue recognition policy was adequately disclosed, but could be enhanced by including reference to specific forms of income, such as council tax, business rates and grants rather than referring to 'non-exchange transactions'

- The CIPFA disclosure checklist is a key document that gives assurance to those authorising the accounts that the financial statements includes all appropriate disclosures. The disclosure checklist had not been completed prior to our audit and was only partially completed by the Council whilst we were completing our work. We have recommended that the Council completes the disclosure checklist as the financial statements are being prepared.

## Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement (AGS) and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines. We did request a small number of amendments to both statements to further improve the disclosures made in the AGS and Narrative Report. However, our overall conclusions are that both documents were:

- prepared in line with the relevant guidance; and
- consistent with the supporting evidence provided and with our knowledge of the Council.

## Other statutory duties

We also have additional powers and duties under the Act, 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. We are pleased to report that we did not have to use any of our additional powers or duties at the Council and no objections were received.

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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 2016 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**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

## **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 2017.



# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial planning</b> 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 and income generation 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 however are earmarked whilst the Council held no short term investments as at 31 March 2017. Current liabilities totalled more than current assets by over 1.2m. The Council however does have a good track record of meeting budgets and were able to increase the general fund reserves by £924,000 in 2016/17.</p> <p>We looked at the key schemes from the Medium Term Financial Strategy (MTFS) that are to fill the budget gap, which is estimated to be £3.3m by 2019/20. 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 the schemes, including regular updates to members. Whilst detailed evidence 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> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>
<p><b>Risk management arrangements</b> 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 reviewed 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>We found that risk management frameworks are in place, and work is continuing to develop these further. 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.</p> <p>Detailed risk identification arrangements are required with service risk registers in place which are owned/maintained by the individual services. 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. The Council is due to relaunch its service planning arrangements during 2017/18 using the new system. Looking ahead, the further system developments are intended to 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>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	45,255	45,255	45,255
Housing Benefit Grant Certification	6,683	Tbc	6,798
<b>Total fees (excluding VAT)</b>	<b>51,938</b>	<b>Tbc</b>	<b>52,053</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our certification work is due to be completed by 30 November 2017 and our fees will be confirmed shortly after that date.

## Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• None	<b>0</b>
<b>Non-audit services</b>	
• Income generation review	<b>4,991</b>

## Non – audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- 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, as reported in our Audit Findings Report.
- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been appropriately approved.



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