

Annual Governance Report

Chorley Borough Council

Audit 2007/08

September 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion on your 2007/08 accounts, our value for money conclusion and certificate of conclusion of the audit.
- 2 This report includes a copy of the letter of representation received from management. In accordance with International Standards on Auditing (UK&I) 580 only management need to sign the letter off but those charged with governance must acknowledge their collective responsibility for the compilation of the financial statements and arguably this would include considering the adequacy of the letter of representation.
- 3 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you

Financial statements

- 4 The arrangements for production of your financial statements have been good. The draft financial statements were produced in time for the June 2008 Audit Committee. The working papers to support the financial statements have been generally of a good standard.
- 5 We expect to issue an unqualified opinion on the financial statements by 30 September 2008.

Value for money

- 6 We have assessed your corporate arrangements for securing economy, efficiency and effectiveness in the use of your resources against 12 criteria specified by the Commission. We have concluded your arrangements are adequate and propose issuing an unqualified conclusion on the Council's value for money arrangements.

Next steps

- 7 We ask the Audit Committee to:
 - consider the matters raised in the report before approving the financial statements;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 8 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Issues around the Large Scale Voluntary Transfer of the housing stock in March 2007	No significant risks have arisen
Changes to the SORP for 2007	The draft accounts did not fully reflect the changes in the 2007 SORP and some amendments were required.
Potential accounting adjustments in preparation of the move to International Financial Reporting Standards in 2008/09.	The application of International Financial Reporting Standards (IFRS) to local government has been delayed.

Recommendations	
R1	Improve training and quality assurance procedures to ensure that the draft accounts presented for audit fully reflect the current SORP.
R2	Ensure that the Council invests sufficient resources to ensure that it is able to correctly apply IFRS from the relevant date

Draft representation letter

- 12** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 13** Appendix 1 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 14 We consider the qualitative aspects of your financial reporting. These cover:
- appropriateness of accounting policies (including non-compliance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice);
 - timing of transactions;
 - appropriateness of accounting estimates and judgements, including consistency of assumptions and degree of prudence;
 - potential effect of material risks and exposures, for example, litigation, disclosed in financial statements;
 - any issues casting doubt on the ability to remain as a going concern;
 - the extent to which the financial statements are affected by usual transactions;
 - apparent misstatements in other information published with the financial statements;
 - material inconsistencies between the financial statements and other information published with the financial statements;
 - the balance and clarity of information contained in the financial report; and
 - the accessibility of the financial statements and other documents published with financial statements.
- 15 Table 2 contains the issues we want to raise with you.

Table 2 Accounting Practice and Financial reporting

Issue or risk	Finding
With the objective of further improving the clarity in the presentation of the Accounts some of the comparative analysis for 2006/07 has been amended from the figures in the 2006/07 audited accounts.	Whilst these adjustments are not material it does not help the reader's understanding of the accounts if the comparatives do not agree with the previous years accounts

Recommendation
R3 In future years, ensure that the comparatives in the accounts agree to the previous years audited accounts.

Financial statements and Annual Governance Statement

Errors in the financial statements

- 16 We identified a small number of errors in the financial statements (other than those of a trivial nature) and reported these to management.
- 17 Management has agreed to adjust the financial statements for the errors identified in Appendix 2. However, because these are above our trivial level of £88,000 we are reporting these amendments to you. They are set out in Appendix 2 with an action plan of issues the Council needs to address at Appendix 4. The amendments do not impact on the Council's overall financial position.
- 18 We have not identified any errors (other than those of a trivial nature and those relating to adjustment to some comparative figures) that management has declined to correct where we have asked them to do so.

The audit report

- 19 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

- 20 We have identified weaknesses in the design or operation of an internal control that might result in a material error in your financial statements which has not been reported to you. These weaknesses are set out in Table 3.

Table 3 Weaknesses in internal control

Issue or risk	Finding
Fixed assets are controlled through a series of spreadsheet and the accounting entries in the statement of accounts are derived from these spreadsheets.	From 2008/09 these spreadsheets will be unable to provide the more detailed asset data Council's will require in order to produce their accounts.
Currently the Related Party disclosure note is compiled without reference to the disclosures in the Members and Officers register of interest.	This means there is a danger that the Related Party note is not complete.

Recommendations

- R4** Introduce an asset register system so that Chorley has sufficient information on its assets to prepare SoRP compliant accounts.
- R5** Ensure that the Members and Officers registers are reviewed as part of the process of compiling the Related Party disclosure note.

- 21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

- 22 We have identified the following matters that we require you to consider.

Table 4 Other matters

Issue or risk	Finding
Chorley failed to comply with its statutory duty that it should breakeven on its building control account over a three year period.	Whilst the amounts involved are not material it is important that Chorley takes appropriate action to ensure that it complies with its statutory duties in the future.

Recommendation
R6 Ensure that Chorley complies with its statutory duty to breakeven on its building control account over a three year period in future.

Value for money

- 23** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 24** We have assessed the arrangements of the Council as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

25 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

26 We have not and do not propose to exercise these powers in relation to 2007/08 audit.

Independence

- 27** The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 28** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 29** We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 30** We have identified no relationships that might affect objectivity and independence.

Audit fees

31 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 5 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements and Annual Governance Statement	44,600	44,600
Use of Resources	43,700	43,700
Data Quality	13,500	13,500
Whole of Government accounts	2,300	2,300
Total Audit Fees	104,100	104,100
Inspection fee	5,900	5,900
Total Audit and Inspection fee	110,000	110,000
Certification of claims and returns	24,000 (estimate)	24,000 (estimate)

32 The analysis above shows that we expect to contain our audit fee within the totals you have already agreed.

Audit fees

Our arrangements to ensure independence and objectivity

33 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 6.

Table 6 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">do not hold a financial interest in any of our audit clients;may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; andmay not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">the general requirement to carry out work independently and objectively;safeguarding against potential conflicts of interest;acceptance of additional (non-audit) work;rotation of key staff;other links with audited bodies;secondments;membership of audited bodies;employment by audited bodies;political activity; andgifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft letter of representation

Mr T M Watkinson
District Auditor
Audit Commission
2nd Floor
Aspinall House
Aspinall Way
Middlebrook
Bolton
BL6 6QQ

Chorley Borough Council - Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Chorley Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2008.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

I am not aware of any:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

Appendix 1 – Draft letter of representation

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

I am not aware of any instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. 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.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Audit Committee, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Specific representations:

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Signed on behalf of Chorley Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 25 September 2008.

Signed

Name

Position

Date

Appendix 2 – Audit issues

Table 7 Audit issues

Issue	Amendment
Adjusted errors	
Preserved Right to Buy Receipts of £1,144,000 have been incorrectly shown in the Income and Expenditure Account as a gain on the disposal of fixed assets instead of as Other Income.	Show Preserved Right to Buy Receipts of £1,144,000 as Other Income in the Income and Expenditure Account.
Accumulative depreciation of £569,000 on revalued assets has not been not been written out.	Write £569,000 out of the Accumulative Depreciation Account in respect of assets that have been revalued.
The transfer of the King Street Offices of £314,000 from Other Land and Buildings to Non Operational assets as been incorrectly analysed in Note 15 as a Revaluation instead of an Appropriation.	Include the transfer of the King Street Offices of £314,000 from Other Land and Buildings to Non Operational assets in Appropriations in the analysis in Note 15.
The Union Street Site was revalued during the year by £325,000 but this was not reflected in the Balance Sheet.	Increase the value of the Union Street site by £325,000 and amend the Accounts accordingly.
Capitalised redundancy costs of £499,000 had not been reversed out of the Income and Expenditure Account as required by FRS 17.	Remove £499,000 of redundancy costs from the Income and Expenditure account because the Council has received a Capitalisation Directive.
The accounts submitted for audit did not fully comply with the 2007 SoRP in that items relating to Council Tax and NNDR arrears were included in Note 46.	Remove items relating to statutory debts of £1,571,000 from note 46 comply with the 2007 SoRP.

Issue	Amendment
Adjusted errors	
<p>Veolia Environmental Services. At the meeting of the Executive Cabinet on 26 June 2008, a decision was made to award the long term contract for the collection for refuse and recyclable waste to Veolia Environmental Services.</p>	<p>Give details of the contract for the collection for refuse and recyclable waste awarded to Veolia Environmental Services in June 2008 in the 2007/08 Accounts</p>
<p>Revenue Support grant and NNDR redistribution were omitted from Note 44</p>	<p>Include Revenue Support grant and NNDR redistribution in Note 44</p>

Recommendation
<p>R7 Amend the accounts for the corrections listed in Appendix 2.</p>

Appendix 3 – Audit report

Independent auditor's report to the Members of Chorley Borough Council

Opinion on the financial statements

I have audited the accounting statements and related notes of Chorley Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority's accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Chorley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year;

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority's accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority's accounting statements and related notes.

Opinion

In my opinion the Authority's financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Chorley Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 in December 2007. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Tim Watkinson
District Auditor
2nd Floor Aspinall House
Aspinall Close
Middlebrook
Bolton
BL66QQ

September 2008

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Improve training and quality assurance procedures to ensure that the draft accounts presented for audit fully reflect the current SORP.					
5	R2 Ensure that the Council invests sufficient resources to ensure that it is able to correctly apply IFRS from the relevant date.					
6	R3 In future years, ensure that the comparatives in the accounts agree to the previous years audited accounts.					
7	R4 Introduce an asset register system so that Chorley has sufficient information on its assets to prepare SoRP compliant accounts.					
7	R5 Ensure that the Members and Officers registers are reviewed as part of the process of compiling the Related Party disclosure note.					
8	R6 Ensure that Chorley complies with its statutory duty to breakeven on its building control account over a three year period in future.					
18	R7 Amend the accounts for the corrections listed in Appendix 2.					

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

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