Public

The Updated Audit Findings for Chorley Borough Council

Year ended 31 March 2020

24 November 2021

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

Issues faced by the Council have included:

- Many of the Council’s officers, including the Finance Team, have had to adapt to working from home
- Additional tasks were given to the Council, for example payment of business grants, whilst trying to ensure services continued to be provided
- Potential income loss from the Council’s key assets, such as Market Walk, as businesses remain closed during lockdowns.

Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

Our audit risk assessment considered the impact of the pandemic on our audit. We issued an audit plan in September 2020, where we reported an additional financial statement risk in respect of Covid 19 and highlighted the impact on our VfM approach..

Restrictions on non-essential travel has meant both Council Finance staff and audit staff have had to work remotely throughout the period of the year-end audit. This has created challenges for the completion of our audit, for example in relation to accessing evidence and verification of assets. Through the use of Teams, we have met regularly with the Council’s finance team throughout the audit. We have also made use of our Inflo system to ensure the safe transfer of your audit evidence.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and 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
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during February to August 2021 . Our findings are summarised within this report. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- completion of file closure procedures including review of subsequent events; and
- receipt of a signed management representation letter.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting material uncertainties related to the valuation of land and buildings and property investments of the Local Government Pension Fund.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion’).	We have completed our risk based review of the Council’s value for money arrangements. We have concluded that Chorley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the decision making process for Logistics House. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing a qualified ‘except for’ value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 24.
Statutory duties	The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and, subject to the outstanding matters set out on page 3 being resolved, we anticipate issuing an unqualified audit opinion as reported at the Governance Committee meeting on 28 July 2021.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,029k	This equates to 1.9% of the previous year's audited gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware of any misstatement.
Performance materiality	£772k	Assessed at 75% of financial statements materiality
Trivial matters	£51k	Assessed at 5% of financial statements materiality
Materiality for senior officer remuneration disclosures	£20k	This item merits a lower materiality than the financial statements as a whole due to being of particular interest to the public

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to the identified risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported.; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid-19. We have noted that the Council valuer has reported a material uncertainty within their report as a result of the impact of the global pandemic. The uncertainty has been reflected by management within the Council financial statements, in line with our expectations. Management have also agreed to include a material uncertainty in relation to the net Local Government Pension liability as a result of uncertainty around the valuation of the Council's share of the pension property assets of Lancashire Pension Fund. Both of these material uncertainties will be referenced in the audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is reflective of the auditor drawing attention to a disclosure within the financial statements that we believe is of significant importance. We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement of the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have undertaken the following procedures in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied that were made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined at the planning stage that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable	The presumed risk was rebutted at the planning stage of the audit for the reasons given. We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • 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 at year end. The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. More detail on this matter can be seen on page 10. • Our review of valuation movements identified that a number of assets including Market Walk, Strawberry Fields and Primrose Gardens were valued at cost. This is not consistent with the requirements of the CIPFA Code and not an appropriate measure as confirmed by our own independent external valuers. • Following discussion, management engaged their new external valuer to re-consider the valuation of these assets as at 31 March 2020 resulting in an impairment in value of £10.280m. Management have adjusted the accounts to reflect the reduction in value and we have summarised this in Appendix B.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.	Our audit work included, but was not restricted to: • updated our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The auditor of Lancashire Pension Fund included an emphasis of matter paragraph in their audit report to reflect the “material estimation uncertainty” that exists in the Fund’s property investment portfolio due to Covid-19. Management at the Council updated their disclosures in note 5 (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements to make reference to this uncertainty and given the unknown impact on the valuation, we intend to include an emphasis of matter in our audit report. There are no further matters we wish to bring to your attention regarding the valuation of the net pension liability on the Council’s balance sheet. Based on the procedures completed as above, we have gained assurance that the net pension liability is fairly stated.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Purchase of Logistics House and creation of a new wholly owned subsidiary In July 2019 a decision at the full Council meeting approved the purchase of Logistics House for £33.7m. Approval was also given for additional PWLB borrowing to fund the total purchase costs as well as agreeing to change certain treasury management limits and indicators. The Council also agreed to the establishment of a wholly owned commercial property management company to operate the asset. The purchase of the asset was made shortly after the approval whilst the subsidiary was finalised in March 2020. No transfer of the asset had taken place during the year and we understand no group accounts will be prepared given the subsidiary has not undertaken any transactions or has any assets/liabilities on its balance sheet. We also understand that a revaluation of the property has taken place for the 2019-20 financial statements. Income has also been received during the year from the lease of the property. The transaction gave rise to a number of material accounting transactions in the financial statements which, given the value of the transaction, needs to be considered.	Our audit work included, but was not restricted to: • Agreed the value of the purchase to sale documentation • considered the accounting for the purchase to ensure it met proper practice • reviewed the revaluation of the property through correspondence with the valuer and consideration of the accounting treatment as at 31 March 2020 • considered how the Council has accounted for the income in the 2019-20 accounts • reviewed the Council's conclusion that group accounts were not required in 2019-20 and considered associated disclosure notes. Logistics House had been purchased for £31.45m and we have been provided with suitable documentation and evidence in relation to the purchase. The subsequent valuation of the property for the purposes of preparing the 2019-20 financial statements, valued the asset significantly less than the purchase price based on a key assumption relating to yield. The Council engaged another independent valuer to review the valuation of Logistics House and this supported a higher value based on a different yield percentage. The original valuer subsequently re-considered their valuation following management challenge and revised their valuation of the asset upward to £34.4m using the same yield assumption as the second independent valuer. Given the material nature of this asset and the change in valuation noted above, we engaged our own independent external valuer to consider the appropriateness of the assumptions used to value Logistics House. Our expert has provided us with the assurances to conclude that the valuation of Logistics House within the financial statements is materially correct and is based on reasonable assumptions. Logistics House was classified as an operational building within the draft financial statements of the Council. Based on our understanding of the rationale for the purchase of the asset, to secure an income stream for the Council, we challenged management on this classification as the purpose for holding the assets suggested that it met the criteria for classification as an investment property. Management have considered and agreed with this and have reclassified the asset as an investment property. Following the reclassification adjustment, an additional change to reclassify valuation movements related to logistics house of £727k has been made within the CIES. Review of the rental income associated with Logistics House identified that the draft accounts included an amount of £941k within both debtors and creditors that netted to nil. This amount was to reflect that the Council was recognising that the income would have been paid over to a subsidiary company had it been set up and that the company would return the income to the Council. As the company was not set up at the year-end there was no debtor and creditor relationship and these entries have been removed in the updated financial statements. In addition, our creditors testing identified a £668k credit note to the lessee. This was raised to correct of an overstated debtors invoice and should have been classified as a debtor. Debtors and creditors were therefore overstated by £668k. Management have amended the financial statements to correct for this. The Council has not prepared group accounts for 2019-20 on the basis that the wholly owned subsidiary was not active during the year and Logistics House was not transferred to the company. We concur that this is appropriate We understand that the Council still intends to make use of the subsidiary company and to transfer the asset to it. The Council should ensure that the accounting treatment applied to this transaction is appropriate and engage with external audit as part of the process.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other	During 2019/20 the valuations were carried out by Jacobs RICS qualified Surveyors. The basis of valuations is on that recommended by CIPFA and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by RICS Land and Buildings are revalued sufficiently regularly to endure that their carrying amount is not materially different from their current value at the year-end. Revaluations take place every five-years on a rolling programme. During 2019/20 £118m, from a total of £130m, of the Council's Land and Buildings were revalued. All Property, Plant and Equipment balances, including Land and Buildings are held at an estimate of current value with the exception of infrastructure, community assets, assets under construction and equipment where the valuation is based on a depreciated historical cost. For specialised land and buildings, for example leisure centres, there is an absence of market based value, so a depreciated replacement cost is used as an estimate of current value In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuations provided by Jacobs were the subject of considerable challenge by the Council, particularly in relation to Logistics House. The valuations were not completed until November 2020.	The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. Logistics House had been purchased for £31.45m, however Jacobs valuation was almost £10m less than this due to the use of a yield rate of 7.6%. Given the material uncertainty, both the Council and Grant Thornton engaged with other valuers to consider the valuation, which centred on the use of a yield rate of 4.83%. After consideration of a number of factors including location and yield rates of similar properties elsewhere in the north-west, our work concluded that the yield of 4.83% adopted as part of the 31 March 2020 valuation appear reasonable. • Within the financial statements, Logistics House was classified as Land and Buildings within the Plant, Property and Equipment (PPE) balance. However the asset meets the definition of an investment property as it is held solely for earning rentals rather than the provision of services or administrative purposes. The Council agreed to change the classification of the assets within the financial statements • Further challenge was provided over the valuation of other land and building assets, including Market Walk, Strawberry Fields and Primrose Gardens. As discussed on page 8, this has resulted in a £10.280m reduction in asset values due to an inappropriate valuation approach being applied by the valuer.	●

Assessment

● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be materially misstated

● We consider management's process is appropriate, but found material issues

● We consider management's process is appropriate and there are no errors in the land and buildings balance

Significant findings – key estimates and judgements

<table>
<tr><th>Accounting area</th><th>Summary of management’s policy</th><th>Auditor commentary</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £43m</td>
<td>Regulations require actuarial fund valuations to be carried out every 3 years. Chorley Council are member of the Lancashire County Pension Fund and the Actuary service is provided Mercer. The latest valuation, carried out as at 31 March 2019 showed there was a surplus of £12m against the Fund’s solvency funding target, so the Fund’s assets were sufficient to cover just over 100% of its liabilities At the previous valuation at 31 March 2016 the shortfall was £690m, equivalent to a solvency funding level of 90%.

From 2019/20 the figures include an implicit allowance for the estimated cost of the McCloud judgement. The McCloud judgement refers to a legal challenge in relation to historic benefit changes for all public schemes being age discriminatory.

For the three-year valuation period beginning 1st April 2020 the Council opted to pre-pay the new future service rate as a single amount in April each year of the 3 year valuation period to 2022/23. The Council also opted to pay the full three-year deficit recovery payment for the period 2020/21 – 2022/23. These were both done in return for a small overall discount.</td>
<td>Management at the Council rely on the work completed by Mercer, who are Fellows of the Institute and Faculty of Actuaries. Given the specialised nature of this area, we determined that an auditor’s expert is required to evaluate the appropriateness of key assumptions used in calculating the pension liability. We use pwc as an auditor’s expert through arrangements set up originally by the Audit Commission and novated to the National Audit Office. Whilst pwc complete their review, we perform a review to ensure we are satisfied with the outcomes of the actuary’s report as well as following up issues highlighted by pwc. .
<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2.4%</td><td>2.4% - 2.3%</td><td>🟢</td></tr>
<tr><td>Pension increase rate</td><td>2.1%</td><td>2.1%</td><td>🟢</td></tr>
<tr><td>Salary growth</td><td>3.6%</td><td>3.35% - 3.6%</td><td>🟢</td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>23.8 / 22.3 years</td><td>22.5 – 24.7 years / 20.9 – 23.2 years</td><td>🟢</td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>26.8 / 25 years</td><td>25.9 – 27.7 years / 24 – 25.8 years</td><td>🟢</td></tr>
</table>
We have concluded our review and are satisfied with that there are no material errors within the pension fund liability or supporting disclosures.</td>
<td>🟢</td>
</tr>
</table>

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- 🟢 We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Significant events or transactions that occurred during the year.	The most significant transaction during 2019/20 was the Council’s purchase of Logistics House. Given the level of investment we have had several discussions with the Council on both the accounting for the transaction and also financial assessments of the purchase. During November 2020 the Council’s valuers, Jacobs, produced their assessment of the valuation of Logistics House which was significantly lower than the purchase price. The valuation resulted in further discussions with management.	We have completed our review of the accounting and valuation of Logistics House. Our work included engaging with our own valuer. We concluded that the valuation included in your accounts was appropriate, though we disagreed with the accounting treatment. The asset was included in your PPE balance, however it meets the definition of an investment property. We also concluded that the accounting treatment of the income was incorrect and we have discussed and agreed amendments.

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The Council assessment of the appropriateness of the use of going concern included considering: • Medium to long-term planning • Implications of government policy and legislation • Forecasts and budgets • Working capital and cashflow • Reserves • Provision and contingent liabilities	Our review of the assessment prepared by management concluded that the use of the going concern assumption is appropriate We are satisfied that the assessment reviewed the appropriate available evidence and the use of the going concern assumption appears appropriate.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, which was included in the Governance Committee papers submitted to the meeting on 28 July 2021.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the financial institutions used by the Council for banking purposes. We received all confirmations.
Disclosures	Our review found no material omissions in the financial statements, though a number of amendments have been made to the draft financial statements provided for audit.
Audit evidence and explanations/significant difficulties	The accounts were submitted to the audit team later than planned due to the valuations not being completed by Jacobs until November 2020. The audit was delayed as both the Council and Grant Thornton had to engage additional experts in relation to the valuation of Logistics House and other key Land and Buildings. Management have engaged with the audit team very well during the period of the audit and have provided suitable supporting evidence in response to audit requests.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We currently have nothing to report on these matters
Specified procedures for Whole of Government Accounts	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. Detailed work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Chorley Borough Council in the audit report as detailed in Appendix E.

Value for Money

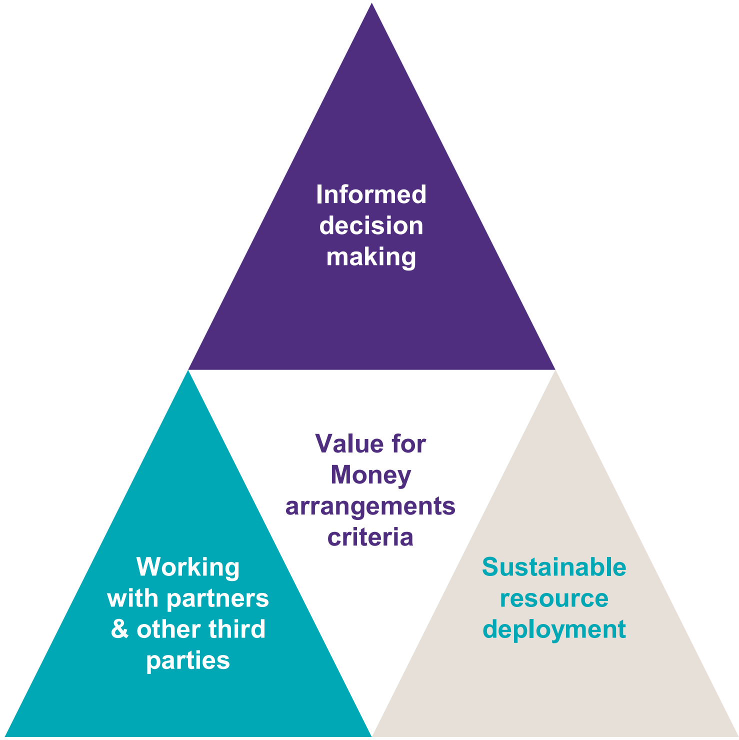
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in September 2020 and identified a number of 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 September 2020

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.

We identified two significant risks in relation to the VFM Conclusion and these are:

- Financial Sustainability
- The purchase of Logistics House

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.

Value for Money

Our work

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 Council’s approach to manging its finances over the medium term, including both its revenue and capital position; and
- the robustness and adequacy of the information provided to members to enable them to have made an informed decision on the purchase of Logistic House to generate a guaranteed income for the Council.

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 19 to 24.

Overall conclusion

Based on the work we performed to address the significant risks, except for the matter we identified in respect of the purchase of Logistics House, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified ‘except for’ conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

Based on the findings arising from our work we have identified a number of recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk in our audit plan

Financial sustainability

There remain financial challenges over the next few years which the Council needs to meet. There is a risk that revenue budget and the capital programme delivery will not sufficiently meet those challenges.

We will review the arrangements the Council has in place to plan, manage and deliver its finances over the medium term by:

- considering the Council's overall arrangements in place to develop its medium-term financial plans
- reviewing how the capital programme is planned and delivered, including the links to the medium-term financial strategy (MTFS)
- consider how the MTFS is evolving to meet the financial challenges caused by Covid-19.

Findings

Revenue outturn

The Council through its financial planning continues to identify savings and additional income to meet these challenges and in 2019/20 against a net revenue budget of £15.654m reported an underspend of £0.466m. This underspend was predominately as a result of additional income and savings on staff costs. This continues the Council's track record of achieving its revenue budget.

In 2019/20 the Council was aiming to deliver savings and additional income of £1.994m, across a wide range of initiatives and projects. The Council achieved savings of £2.27m. This increase was attributable to additional fees and charges, income and an underspend in the Council's borrowing requirement. These savings/additional income were deducted or added to the base budgets. The Council did not report to members its progress on the majority of the income and savings targets throughout the year. The Council only reported to members its position on efficiency savings and management of the staffing establishment, 12% of the planned savings. Progress was monitored at individual service level and the budget holders were responsible for delivery. The Council did report on an exception basis and reported variances where they had an impact on the forecast outturn position.

The Council approved its 2019/20 annual budget in January 2019 along with the forecast for the next two years. The MTFS was included as a supporting document and was approved along with the budget. The Budget setting and MTFS process began with a Senior Management Team (SMT) away day, where SMT discussed the issues facing the Council, the extent of the budget gap and how this will be met by savings. Following these discussions, the Budget and MTFS was raised with members at a Portfolio Exchange meeting prior to be reviewed by the Executive Cabinet and agreed by Full Council.

Going forward revenue budget gaps remain. The Council continues to highlight these budget gaps and through its financial planning processes continues to look for savings and additional income to meet these challenges. The 2020/21 budget identified the following cumulative budget gaps as set out opposite.

The purchase of Logistic house is one example of where the Council has recognised that the level of savings required cannot be achieved through savings and transformational changes alone.

	2020/21 £m	2021/22 £m	2022/23 £m
Gross budget	**0.349**	**2.392**	**3.285**
Savings and income generation	(0.449)	(1.185)	(1.192)
Additional resources (deficit)	**0.1**	**(1.207)**	**(2.093)**

These figures are as reported in the 2020/21 budget in February 2020.

Findings

Capital

In February 2019, the Council agreed a capital budget of £21.148m. This budget along with the revenue budget was agreed by Full Council.

This budget was reported on a quarterly basis and was amended at each quarter and reflected both additional capital expenditure, slippage and planned expenditure no longer required. The final budget was £45.565m after approved quarterly adjustments, which were approved by Executive Cabinet, followed by Full Council.

	Approved budget £m	Revised budget £m
Approved budget	21.148	
Quarter 1	(1.569)	19.579
Quarter 2	34.11	53.689
Quarter 3	(7.118)	46.571
Quarter 4	(1.006)	45.566
Provisional outturn		**45.565**

The most significant adjustment occurred in quarter 2, when the Council agreed the acquisition of Logistics House for £33.7m. This acquisition was not included within the capital strategy as the Council were not aware of this proposition when the capital strategy was set in February 2019. As a result this acquisition was also not included within the MTFS, but was subsequently included within the 2020/21 to 2022/23 MTFS.

Throughout the year the Council did not report a variance from the original approved budget as the budget was adjusted at each quarter and a revised budget agreed. At the year end slippage of £1.061m was agreed and carried forward to the 2020/21 capital budget.

The 2019/20 to 2021/22 MTFS was published at the same time as the 2019/20 annual budget and was included as a supporting paper. It included the capital programme for 2018/19 to 2021/22, a total of £53m. Further detail was provided within the capital strategy which also accompanied the budget. The MTFS also included how the Council intended to finance its capital programme.

Logistics House is considered in more detail on pages 21 to 24.

Covid -19

Covid-19 has had limited impact on the financial position for 2019/20. The Council began to see a drop in income levels as the Country went into lockdown in March 2020. The main impact has been the need to increase the bad debt provision. The Council is expecting greater impact in 2020/21 and has identified the main areas of risk as:

- Reduction in council tax and business rate income
- Increased cost pressures within services such as homelessness, and investment in IT to support the new ways of working
- Reduction in fees and charges
- Reduction in commercial income.

In July 2020, the Council reported that it had received £1.3m in support to manage these risks and had distributed over £20m of grants to local businesses. This support had increased to £1.634m for 2020/21 and £0.557m for 2021/22, with additional funding available to compensate for the loss of income. Throughout 2020/21 the Council has monitored the impact on Covid-19 on its financial position through its quarterly revenue and capital budget monitoring reports. This includes both increased costs and savings.

The MTFS 2021/22 to 2023/24 considers the impact of covid-19, whereas the previous years MTFS was written prior to the pandemic.

Conclusion

Although the Council continues to face significant financial pressures and uncertainty, we consider that the Council had adequate arrangements in place during 2019/20. Going forward in order to effectively manage these financial pressures, the Council should clearly report the total savings/income required within its annual budget and introduce arrangements to separately monitor the delivery of individual savings and income targets.

Value for Money

Significant risk in our audit plan	**Major capital schemes** The council spent £33.7m on the purchase of Logistics House during the year. The purchase of the property was made on the expectation that there will be a guaranteed income stream. Given the size of the investment there is a risk to the Council's financial position if the income stream fails to fully materialise. We will consider the robustness of the information provided to members to allow them to arrive at an informed decision. It will include reviewing the business plans and the risk assessment process undertaken to ensure the Council has minimised any risk to its financial position. We will also consider how the Council has arrived at the decision to manage the asset through a subsidiary.
Findings	The Council had an agreed approach to consider commercial opportunities to generate additional income as set out within its MTFS. In June 2019, the Council was made aware of an investment opportunity by their advisors Gerald Eve. The investment opportunity involved the purchase of Logistics House and its lease back to the existing owner and occupier for an agreed annual fee, thus providing an agreed annual income. Due to the considered attractiveness of this opportunity and the possible expected financial return, significant interest and competition from other buyers was expected and offers were required by 8 July 2019. In order to purchase Logistics House, the Council borrowed from the Public Works Loan Board (PWLB). For Logistics House to be a viable investment opportunity the Council needed to make an acceptable return on its investment after allowing for the cost of borrowing. The funds borrowed also included the other additional costs associated with the purchase, such as advisory costs and SDLT. An offer was made by the Council on the 8 July subject to the condition that the purchase was approved by Full Council at their meeting on the 23 July 2019. This opportunity was discussed with the Leader of the Council and on the 14 July 2019 an email was issued to all Labour members. This email provided a short summary of what was being proposed, a short report from the Council's advisors Gerald Eve and notification of when the opportunity was to be discussed and agreed by members. A cross-party member drop-in session was held on 22 July 2019 to answer any questions raised by individual members, prior to the formal Full Council meeting on the 23 July 2019. No minutes were maintained of this session. Meetings were also held with the portfolio lead and the leader of the Council, anecdotal evidence suggests that political group meetings were also held, but due to the informal nature of these meetings we are unable to confirm the level of debate or attendance levels. On the 23 July the purchase of Logistics House was agreed by Full Council in the closed part of the meeting and the press and public were excluded. At the meeting the following was agreed: • Purchase of Logistics House • Additional borrowing to fund the total purchase, stamp duty land tax (SDLT) and associated fees • Lease back of the property to the company selling and currently occupying the property for a term of 15 years • Temporary increase in the Council's investment counterparty limits, so that the additional funds borrowed to purchase Logistics House could be invested temporarily until the purchase went through • Changes to the prudential indicators to reflect the changes resulting from the purchase • Establishment of a wholly owned company to hold the asset. The purchase was debated at the meeting and questions raised, additional time was requested to discuss the acquisition further, but this was not possible due to the time limiting nature of the acquisition. The final vote on the decision was not recorded as this is not standard practice at the Council, unless specifically requested.

Value for Money

Findings

Although the report provided to Full Council on the 23 July 2019 did not include the recommendation to increase the Council's capital budget the quarter 2 capital budget monitoring report identifies that this was agreed at the Full Council meeting.

Due Diligence

Undertaking appropriate due diligence for the purchase and subsequent lease back to the tenant was important to ensure the Council minimised the risk and achieved the objective of delivering an income to the Council. The nature of this transaction required both financial (evaluation of the property to understand the commercial value and expected return and evaluation of the Tenant) as well as legal due diligence. Legal due diligence was undertaken by a property solicitor appointed by the Council.

A large proportion of the financial due diligence was undertaken by the Council's property advisors Gerald Eve and was included in their property purchase report, a supporting paper provided to Full Council on the 23 July. The Council also commissioned two credit reports from CreditSafe. These reports were only available to officers and were based on historical information that was publicly available. The forward-looking information within the Gerald Eve report, which was within the redacted section of the report so was not made available to Full Council included:

- turnover and pre-tax profits for TVS from its 2018/19 accounts (at point of publication the accounts had not been published by Companies House)
- forecast turnover and pre-tax profits for 2019/20 .

As this transaction is dependent upon future performance and not past performance, we would expect the due diligence to have taken a more forward-looking approach, such as consideration of:

- TVS's forecast turnover and profits beyond one year(2019/20), including review of the assumptions and figures to gain an understand the robustness of these forecasts
- TVS's contracts after three years and their plan beyond three years (of the 17 main contracts listed 14 (82%) had less than three years remaining)
- for the guarantor - credit ratings and forecast accounts beyond 31 March 2018.

Information provided to members to support the decision prior to 23 July 2019

We noted earlier that information was sent to all members via email ahead the key decision being made on the 23 July 2019. This information was limited and included:

- an email setting out the income per annum and its equivalent should the Council increase Council tax
- a short note setting out the cost of the purchase and the financial details
- a brief property report which set out a summary of the asset and financial models. This was provided by Gerald Eve (Property Consultants).

This information was intended to raise awareness and to provide the basis on which further questions could be asked. We consider that this should have included an outline of the risks faced by the Council of undertaking such an investment.

Value for Money

Findings

Information provided to members to support the decision made on 23 July 2019

The Full Council were provided with a summary report, and the following appendices, five days ahead of the meeting:

- Marketing brochure
- Copy of the offer letter
- A draft property purchase report produced by Gerald Eve
- Draft lease report produced by Hill Dickinson.

The summary report contained details about the proposed purchase, the tenant, financial analysis and the risks to the Council. We considered that the financial analysis was mot easy to understand for the following reasons:

- the financial analysis was provided over 15 years, whereas the annuity was for 40 years, no explanation was provided for this why the analysis was not extended to 40 years
- the value of Logistics House remained the same for 15 years
- the outstanding debt was shown to be negative from year six
- no assumptions or explanations of the financial analysis were provided to explain to the read what the analysis was demonstrating
- no conclusion or summary was provided within this section of the report on the financial analysis
- the financial analysis did not stand alone and required context from the purchase report.

The financial analysis within the summary report differed from that provided within the property purchase report. This included:

- use of different interest rates for the loan, so that the interest rate figures and MRP figures were different
- the Gerald Eve report included the total income after MRP and interest payment and the amount of outstanding debt.

Whilst these difference were justifiable an explanation was not provided within the Full Council summary report.

We have reviewed the financial information in this report and the supporting Council information and identified the following:

- all potential costs to the Council have not been included, such as those arising should structural issues be identified that are not the tenants fault
- the summary report presented to Members presumed an interest rate of 2.4%, whereas the PWLB loans were taken at an interest rate of 1.87%, so the financial return should be better than indicated
- an error in the financial modelling prepared by the Council, in that the spreadsheet for the 40-year annuity option has no MRP recorded against it for years 31-40, however this did not impact on the information provided to Members, this was part of a wider modelling exercise undertaken by the Finance Team.

Value for Money

Findings

Information provided to members to support the decision made on 23 July 2019 continued

A summary of the financial risks and reputational risks are included, but these risks were not rated or scored. Further investigation identified that a risk register had not been completed for this transaction. The Council's risk management framework states that risk registers should be produced for strategic level, service level and individual projects using the GRACE system to score and record the risk. In addition, we note that in July 2019 and 2020 the Council's strategic risk register had recorded the following risk as its highest rated risk 'Failure to realise the value of large budget investments and achieve return on investment''. In our view the purchase and lease back of Logistics House directly links to this strategic risk and as a result the risks posed by this transaction should have been rated and recorded on the Council risk management system.

In addition we consider that there may be additional risks that the Council has not fully considered:

- that the rent reviews that take place on 4 September 2024 and 2029 may also reduce the rent as well as increase it, as there is no certainty in relation to market conditions
- that the tenant may not renew the lease, so the Council maybe left with an asset but with no income stream.

The purchase property report was a detailed report covering a wide range of information from a description of the building, valuation, the North West investment market, the likely rental income and the expected return on the investment. However, key elements of this report were redacted and not made available to Full Council but were made available to the Chief Executive and the Monitoring Officer. The redacted information included:

- Information on the North West investment market, including pricing rationale, yield trend and investment and vacant possession comparisons
- Tenant and guarantor information including Dun and Bradstreet credit worthiness ratings and both historical and a limited amount of forward-looking financial information on the tenant
- A brief outline of why Logistics House was for sale.

This information was not included in the reports as, although a non-disclosure agreement was not in place, TVS requested that some of this information should not be disclosed. As a result, this information was not provided to members and it was for the Chief Executive and Monitoring Officer to determine the relevance of this information and what was to be included within the summary report. In our opinion, to fully support the members' decision making and in the spirit of openness and transparency, the Council should have given greater consideration to how this information could have been shared without disclosing confidential information. The approach taken by the Council was to redact the whole page whereas a different approach could have been to present information in a different way or to redact specific information such as company names. Wherever possible Full Council should have access to all relevant information with only a limited amount redacted to enable informed decision making.

Investment Counterparties and Prudential Indicators

The purchase of Logistic House was not a planned transaction and as such the Council recognised that it needed to make changes in its investment limits and its prudential indicators. As such, on the 23 July 2019 Full Council also agreed increased counterparty limits so that the money borrowed from PWLB could be invested until the purchase went through and changes to the prudential indicators approved. The changes to the investment counterparties' limits were temporary and would revert back to the amounts agreed on 26/2/2019 following completion of the purchase of Logistics House.

Value for Money

Findings

Business case

The aim of a business case is to provide decision makers with an evidence-based tool to ensure transparent decision making. A business case should set out the rationale as to why an organisation should undertake a project and how the objectives can be achieved. It also provides alternative solutions and options to deliver the return on the investment.

A business case was not produced for the purchase and lease back of Logistics House. We would expect a business case to have been produced for such a commercial investment of this level. Although elements of the information that would have been provided in a business case was included within the Full Council summary report, in our opinion a business case based on HM Treasury good practice five case model would have provided the decision makers with:

- One clear document that provides all the information on which the decision was to be based
- Full consideration of the risks, opportunities and benefits for each of the five cases:
    - Strategic
    - Economic
    - Commercial
    - Financial
    - Management.

Establishing a wholly owned Company

The summary report provided to members clearly stated that the Localism Act requires a local authority to establish a company when doing something for a commercial purpose and as a result agreed that a company should be established to hold the commercial investment property (Logistics House). In the same meeting that Full Council agreed to purchase Logistics House, they also agreed to establish a wholly owned company. The agreement to establish the wholly owned company was a separate agenda item and was supported by a business case. However, the Council did not have sufficient time to establish the wholly owned company prior to the purchase of Logistic House. The wholly owned company was not established until March 2020 and the lease was not transferred from the Council to the company until April 2021.

The Council did not obtain third party legal advice on the wholly owned company at the time of the decision in July 2019. Legal advice was provided by the Council's internal legal department. Although the Monitoring Officer has assured us that the delays in establishing the wholly owned company and in Logistics House being held by the Council were not unlawful, and that the Council had taken the most prudent approach, the report provided to members did not provide alternative options that the Council could consider, other than to set up a wholly owned company.

Conclusion

We consider that adequate arrangements were not in place to support informed decision making for the acquisition of Logistics House. The process was not sufficiently robust and the risks not fully considered in line with the Council's own risk management framework for a transaction of this value.
Although we recognise that the Council has achieved its expected income from the transaction and that this was much simpler investment project than the Council has embarked on previously, it is still of significant value and potential risk to the Council to require thorough due care and consideration based on robust information. In order to improve the arrangements, should the Council embark on other investment projects, we have raised a number of recommendations within Appendix A.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Independence and ethics

Audit and 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 following audit related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2019-20 was £16,000 in comparison to the original proposed fee for the audit of £44,316 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

No non-audit related services were identified which were charged from the beginning of the financial year to July 2021

Action plan

Assessment	Issue and risk	Recommendations
● (Amber)	Delivery of individual identified savings schemes and activities are not monitored and reported to the Executive Cabinet and Full Council. Consequently the Council is not aware if the agreed savings schemes are being delivered as planned.	The Council should clearly report the total savings/income required within its annual budget and introduce arrangements to separately monitor the delivery of individual savings and income target. **Management response** **Agreed –** Details of savings programmes developed to address any future budget shortfalls will be included in the annual budget and MTFS reports presented to Full Council in February each year. The Quarterly Revenue Monitoring Reports will be adapted to incorporate the monitoring of progress against individual elements of these savings programmes.
● (Amber)	The Council has no record of the debate and attendance for informal Member meetings and is unable to demonstrate the level of engagement as a result.	The Council should maintain a record of the attendance and minutes for informal member meetings where key decisions are being discussed. **Management response** **Agreed** - The Council will take appropriate notes of these meetings moving forward for the purpose of ensuring that any relevant matters raised are communicated to all members as part of the decision making process.
● (Amber)	The due diligence undertaken predominately gave an historical view of the financial performance of the tenant, whereas the risk faced was forward looking.	The Council should ensure the due diligence for commercial investments considers the likely financial performance in the short to medium term, not just an historical financial perspective. **Management response** **Agreed -** The Council will in future consider the likely financial performance in the short to medium term, and not just from an historical perspective, where such information is available to support the due diligence undertaken for commercial investments.
● (Red)	A good business case facilitates transparent decision making and ensures the decision makers are provided with all the necessary information in one concise document to make an informed decision.	The Council should prepare business cases to support its commercial investment projects. **Management response** **Agreed –** The Council will develop and implement a standard business case template that reflects HM Treasury good practice and the Five Case Model referred to in the Audit Findings Report.

Controls

- ● High – Significant effect on control system (red)
- ● Medium – Effect on control system (amber)
- ● Low – Best practice (green)

Action plan

Assessment	Issue and risk	Recommendations
● **(Red)**	The potential risks face by the Council as a result of purchasing and leasing back Logistics House were not fully considered, rated and recorded. All risks may not have been considered.	The Council should follow its risk management framework and ensure the risks are rated and recorded on its GRACE risk management system. **Management response** **Agreed –** The Council will ensure that the framework is followed and that risks are rated and recorded on GRACE.
● **(Red)**	Decisions made by full Council could be hampered when they do not have access to all the information.	The Council should consider how confidential information can be shared with members without disclosing restricted elements of the information. Wherever possible, Full Council should have access to all relevant information with only a limited amount redacted to enable informed decision making. **Management response** **Agreed -** Wherever possible, i.e. dependent on the restrictions imposed by the author of the information provided, Full Council will have access to redacted information to inform their decision making.
● **(Amber)**	Legal advice should be robust and provided assurance that the Council is acting appropriately. Full Council were provided with internal legal advice that informed them that commercial investment properties should be held by a third party company to be compliant with the Localism Act. Logistics House was held by the Council for over 12 months before being transferred to the Council's wholly owned company.	The Council should ensure that Cabinet and Full Council decisions are supported with legal advice that considers all the possible options, third party advice may be beneficial in supporting these decisions if the specialist advice cannot be provided internally. **Management response** **Agreed –** The Council will consider commissioning third party legal advice. It was not considered necessary in this particular instance.

Controls

- ● High – Significant effect on control system (red)
- ● Medium – Effect on control system (amber)
- ● Low – Best practice (green)

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Reclassification of Logistics House from Property, Plant and Equipment to Investment Properties	Surplus/deficit on PPE reval – 727 Gross income on cost of services - 941 Financing and Investment income – (1,668)	Investment Properties - 34,389 PPE - (34,389)	-
Removal of debtor/creditor relationship relating to the subsidiary company not set up at year-end.		Creditors – 941 Debtors – (941)	
Impairment of assets incorrectly valued at cost in the draft financial statements	Expenditure on provision of services – 10,280	PPE – (10,280)	10,280
Reclassification of credit note incorrectly included within creditors on the balance sheet	-	Creditors – 668 Debtors – (668)	-
Overall impact	**£10,280**	**£(10,280)**	**£10,280**

Audit adjustments

Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Presentational and disclosure matters	Our review and audit of the draft accounts identified a small number of presentational changes to the notes to the accounts which has added clarity of the accounts for the reader	We shared the areas for presentational changes and these have been reflected in the revised accounts which will be reviewed on receipt.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements to bring to your attention.

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£44,316	£61,463*
Total audit fees (excluding VAT)	**£44,316**	**£61,463**

*The final fee for the audit is still to be agreed with management and will be subject to approval by PSAA.

Additional fees from those proposed at the planning stage are summarised below:

Additional fee rationale	£
Use of auditors expert to review valuations of Logistics House and specific assets	5,000
Additional work on PPE valuations as a result of issues identified	2,000
Work to address VFM significant risks	5,000
Covid-19 time impact	£5,147
Total additional fee variations	**£17,147**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Housing Benefit Subsidy Grant	16,000	16,000
Non- Audit Related Services	0	0
Total non- audit fees (excluding VAT)	**£16,000**	**£16,000**

Management letter of representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Chorley Borough Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented 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.

iii. 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 any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and we acknowledge the material valuation uncertainty the valuer has noted in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19 and we are satisfied that there have been no material impairment of asset values as assessed by the valuers. 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.

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. 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.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

x. 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.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern 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. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. 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. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. 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.

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

   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.

vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

vii. 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.

viii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

ix. We have disclosed to you all of the group relationships of the Council and after reviewing the group boundary we do not consider that group accounts are required to be prepared.

x. 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. The final version of the AGS will be provided to you when available and before publication.

Management letter of representation

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. The final version of the Narrative Report will be provided to you when available and before publication.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 28 July 2021.

Yours faithfully

Name…………………………….

Position………………………….

Date…………………………….

Name…………………………….

Position………………………….

Date…………………………….

Audit opinion

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Chorley Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, notes to the Core Statements, and notes to the Collection Fund Statement. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and on the valuation of pension fund assets

We draw attention to Note 5 'Assumptions about the future and other major sources of estimation uncertainty of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports.

Our opinion is not modified in respect of these matters.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 47, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, except for the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects Chorley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- Arrangements to support Members in making the decision to purchase Logistics House were not sufficiently robust.
- The Council did not fully consider associated risks in line with its own risk management framework and the business case supporting the purchase was not in line with best practice.

These matters identify weaknesses in the Council’s arrangements for:

- Making an informed decision in respect of a material Council investment; the purchase of Logistics House.

Responsibilities of the Authority

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.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects 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 criterion 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 2020.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Michael Green, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

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