



# Annual Audit Letter

*Year ending 31 March 2018*

---

Chorley Borough Council

15 August 2018



# Contents



## Your key Grant Thornton team members are:

Mark Heap  
Director

T: (+44)161 234 6375  
E: [mark.r.heap@uk.gt.com](mailto:mark.r.heap@uk.gt.com)

Simon Hardman  
Manager

T: (+44)161 234 6379  
E: [simon.hardman@uk.gt.com](mailto:simon.hardman@uk.gt.com)

Richard Watkinson  
Executive

T: (+44)161 234 6345  
E: [richard.watkinson@uk.gt.com](mailto:richard.watkinson@uk.gt.com)

## Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

## Page

- 3  
5  
9

## Appendices

- A Reports issued and fees

---

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Chorley Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee as those charged with governance in our Audit Findings Report on 25 July 2018

## Respective responsibilities

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

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

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

## Our work

---

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,077,000, which is 2% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
<b>Whole of Government Accounts (WGA)</b>	No work was required on the Council's consolidation return.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Governance Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice.

---

---

# Executive Summary

## **Working with the Council**

During the year we have delivered a number of successful outcomes with you:

- We delivered an efficient audit with you in July, by the deadline and two months earlier than in previous years
- We held regular meetings with the Finance Team to ensure that the audit was delivered as efficiently as possible and that, where possible, issues were addressed prior to our year-end audit
- During the year we met several times with the Council's senior managers to gain an understanding of the challenges facing Chorley and to share our varied publications and thought leadership reports
- We provided regular updates for the Governance Committee covering best practice, latest sector reports and our own thought leadership reports

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

**Grant Thornton UK LLP**  
**August 2018**

---

# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,077,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for the Senior Officer remuneration note and related parties.

We set a lower threshold of £54,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts, including the narrative report and annual governance statement, to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Chorley Borough Council.</p>	<p>Our audit work did not identify any reason to change our rebuttal of the risk and no issues were identified.</p>
<p><b>Management override of controls</b> 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 Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>No issues were identified and there was no evidence of management overriding controls.</p>

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b> The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>gave consideration to the competence, expertise and objectivity of any management experts used</li> <li>discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions</li> <li>reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>No issues were identified and the financial statements presented for audit were materially correct.</p>
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>checked the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>The only issue we identified was that the note for the Pensions Assets and Liabilities Recognised in the Balance Sheet' were in the wrong columns - the 17/18 figures were shown in the 16/17 column and vice versa.</p>

---

# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in accordance with the national deadline.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a detailed set of working papers to support them. The finance team responded to all of our queries during the course of the audit enabling us to complete our audit by the specified deadline.

Each year the Chartered Institute of Public Finance and Accountancy (CIPFA) issue a disclosure checklist to help Councils ensure that the Financial Statements produced include all appropriate disclosures. The Council had not fully completed the checklist and we made a recommendation that this is prepared as part of the accounts preparation.

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

We reported the key issues from our audit to the Council's Governance Committee on 25 July 2018.

We did identify a small number of issues that resulted in the statement of accounts being amended but none of these impacted on the financial position of the Council.

## **Annual Governance Statement (AGS) and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Whilst we have made a small number of suggestions to develop the AGS further in future years, both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Other statutory powers**

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

We have no issues to report.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Chorley Borough in accordance with the requirements of the Code of Audit Practice.

---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2018, we made one recommendation which is:

The Council should continue to closely manage and monitor its financial performance. Potential issues to consider are:

- Ensuring the assumptions in the main budget, MTFP and transformation projects need to be regularly reviewed
- Consideration should be given to presenting the quarterly monitoring report to a scrutiny committee, allowing further member review

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial sustainability</b></p> <p>There remain financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.</p>	<p>We reviewed the arrangements the Council has in place to manage and plan its finances over the short and medium term. We did this by considering the Council's arrangements in place to develop financial plans and how it reports its financial position. It included reviewing how the Council plans to bridge the budget gap over the next three years.</p>	<p>We found that the Council has appropriate arrangements in place in relation to financial planning and management. Financial challenges remain and the Council has publicly reported that it has a cumulative gross budget deficit of £3.3m by 2020/21. Through a variety of items, such as reviewing fees and charges, productivity savings and council tax increases, the deficit reduces to an 'adjusted forecast cumulative deficit position of £2.2m.</p> <p>Through a mixture of renegotiating contracts and transformation, the Council remains confident that the budget deficit will be met. The Council provided detailed evidence that the key transformation projects are being appropriately planned, managed and monitored. We found that there were financial models in place which consider a variety of outcomes. It is important that the Council continues to monitor these as the outcomes on the assumptions underpinning the transformation projects will determine whether they will generate a surplus or a deficit.</p> <p>Assumptions supporting the budget also appeared appropriate and were supported by explanations in the budget papers presented to Council in February. The assumptions supporting the Council's medium term financial plans (MTFP) will need to be regularly reviewed and discussed with Members to ensure they remain consistent with any policy decisions. Overall, the budget papers presented to the February Budget Council meeting were very thorough and gave a complete picture of the current financial position.</p> <p>The Council has usable revenue reserves of £12.3m, including £4m General Fund balance. Liquidity has also improved with current assets now being higher than current liabilities. However, financial challenges remain and we have noted that Chorley, unlike many other Councils, has no short-term investments. The Council's treasury management strategy is to minimise cash holdings, therefore reducing borrowing and associated costs. It carefully monitors its cash balances and, particularly given the treasury management strategy, should continue to do so to ensure that no liquidity issues arise.</p> <p>The Council manages and monitors its financial position with quarterly monitoring reports considered by the Executive Cabinet and the MTFP being regularly reviewed and updated. The Executive Cabinet also receives the performance report, which allows financial and service performance to be considered at the same meeting.</p> <p>We therefore concluded that the Council has proper arrangements in place to achieve planned and sustainable outcomes for taxpayer and local people.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	45,255	45,255	45,255
Housing Benefit Grant Certification	6,798	TBC*	6,683
<b>Total fees</b>	<b>52,053</b>		<b>51,938</b>

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

\* The fee for housing benefit grant certification will not be finalised until we have completed the review in November 2018.

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	5,000
- Homes England Compliance Audit	
<b>Non-Audit related services</b>	
- None	

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.