

The Audit Findings for Chorley Borough Council

Year ended 31 March 2019

24 July 2019



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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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• 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. <p>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.</p> <p>Our audit work was completed on site during June and July. Our findings are summarised within our report. We have not identified any adjustments to the financial statements. We did identify some minor disclosure issues and these are outlined in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p>	<p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- Finalisation of our audit testing- Review of the Council's response to the McCloud issue- Completion of the disclosure checklist- Review of audit work by the Engagement Lead- Receipt of management representation letter as set out in Appendix E; and- Review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>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').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Chorley Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>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.</p>

Acknowledgements

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

Summary

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 have been agreed with management.

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;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by 31 July 2019, as detailed in Appendix D. These outstanding items include:

- Finalisation of our audit testing
- Review of the Council's response to the McCloud issue
- Completion of the disclosure checklist
- Review of audit work by the Engagement Lead
- Receipt of management representation letter as set out in appendix E; and
- Review of the final set of financial statements.

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 calculations remain the same as reported in our audit plan.

	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	1,104	• Risk based materiality
Performance materiality	828	• Quality of previous years' accounts
Trivial matters	54	• Based on materiality

We also design our procedures to detect errors at a lower level of precision for senior officer remuneration and related parties.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

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.

Auditor commentary

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:

- 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 Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Chorley Council.

2

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. For example, 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined 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 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.

No issues have been identified from our testing.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Council revalues much of 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 need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) 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, as one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

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
- written to the valuer to confirm 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 Council'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.

We are currently concluding our work on this issue and we have no matters to report at this stage.

Significant findings – audit risks

Risks identified in our Audit Plan

4

Valuation of pension fund net liability

The Council'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 (£45 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Commentary

Auditor commentary

We have

- updated our understanding of the processes and controls put in place by management to ensure that the Council'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 Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of the 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.

McCloud Ruling

The Court of Appeal ruled that there was age discrimination in pension schemes for judges and firefighter where there were transitional protections given to scheme members. Where transitional provisions are unlawful then those members who are found to have been discriminated against need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The legal ruling, around age discrimination, has implications for other public service schemes where they have implemented transitional arrangements on changing benefits, including the Local Government Pension Scheme.

Our view is that the McCloud judgement gives rise to a past service cost and liability within the scope of IAS 19 as the ruling creates a new obligation. The view is consistent with the NAO and other audit firms. As such additional review has been completed by the Council, with the Pension Fund and Actuary, to identify the impact on the pension liability. Our additional work on this issue includes reviewing the output from this additional review and the proposed disclosure within the Statement of Accounts. When writing the report we have not yet received the output from the Council's additional review on this matter.

Significant findings – key judgements and estimates

Accounting area	Summary of management's estimation process	Audit Comments
Provisions for NNDR appeals - £1.2m	<p>The provision brought forward as at 1 April 2018 was based on a methodology that took account of the probability of an appeal being successful, and the likely reduction in Rateable Value if successful by category of business. The probabilities were considered against the whole list of outstanding appeals, which made it difficult to match a provision value to specific properties.</p> <p>For the 2018-19 accounts the Council changed the methodology so that there should be a figure per property for which there was an appeal. Whilst it was possible for the appeals in respect of the 2010 list, a different approach was required for the 2017 list.</p> <p>The Valuation Office Agency spreadsheet was reviewed to exclude settled appeals. A separate spreadsheet was created to calculate the provision required for outstanding (pre-2017 list) appeals, and to estimate the provision for 2017 appeals not yet received.</p> <p>Duplicated appeals in respect of the same properties were eliminated. The calculation assumed there would be some reduction for each of the remaining properties, and that the reduction per type of property would be as previously recorded, though rounded up. The calculation uses each year's multipliers to calculate backdating of potential appeals refunds to the effective date.</p>	<ul style="list-style-type: none"> • The methodology is supported by detailed working papers • The underlying information used to determine the estimate appears appropriate • The change to the methodology has resulted in an overall increase in the provision • We have not identified any issues in relation to the consistency of the calculation at similar bodies • The value and estimation of the provision appears reasonable • Disclosure of the estimate in the financial statements is under review but no issues identified

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 – key judgements and estimates

	Summary of management's policy	Audit Comments
Land and Buildings – £60,896m	<p>Chorley's land and buildings total £61m from a total of £91m of Property, Plant and Equipment on the Balance Sheet.</p> <p>Land and Buildings are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Council.</p> <p>Once operational the land and buildings are carried in the Balance Sheet at current value, determined as the amount that would be paid for the asset in its existing use.</p> <p>In respect of specialised assets, if there is an absence of market based evidence of value, depreciated replacement cost is used as an estimate of current value.</p> <p>Valuations are provided by RICS-qualified valuers, on the basis recommended by CIPFA, and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by the RICS. Land and buildings are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.</p> <p>Increases in valuations are credited to the Revaluation Reserve unless they reverse previous losses charged to the Comprehensive Income and Expenditure Statement, in which case the gain shall be credited to that account. A fall in value will be charged firstly against any balance held in the Revaluation Reserve. If this is insufficient or non-existent, the charge is made to the relevant service line in the Comprehensive Income and Expenditure Statement.</p>	<ul style="list-style-type: none"> • The expert used by management is appropriately qualified and skilled • We found no issues in relation to the completeness of the information held by the Council and used to ensure the valuations are appropriately made • We have not identified any changes to the methodology • We are currently concluding our work on comparing the valuations to indices provided by the auditor expert, Gerald Eve • The Council completes an annual review of Market Walk, given specific issues within the retail sector • Disclosure requirements are still being considered but no issues have been identified.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments																		
<p>Net pension liability – £46m</p>	<p>The Council's net pension liability at 31 March 2019 is £46m (PY £46m) comprising the Lancashire County Pension Fund obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016.</p> <p>A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> The management expert was appropriately qualified and skilled We have confirmed the appropriateness of key assumptions We used pwc as auditors expert to assess actuary and assumptions made by actuary <table border="1" data-bbox="840 470 1915 989"> <thead> <tr> <th data-bbox="840 470 1310 566">Assumption</th> <th data-bbox="1310 470 1601 566">Chorley Value (based on Mercers)</th> <th data-bbox="1601 470 1915 566">PwC Assessment of Mercers</th> </tr> </thead> <tbody> <tr> <td data-bbox="840 566 1310 614">Discount rate</td> <td data-bbox="1310 566 1601 614">2.4%</td> <td data-bbox="1601 566 1915 614">Within range</td> </tr> <tr> <td data-bbox="840 614 1310 694">Pension increase rate</td> <td data-bbox="1310 614 1601 694">2.3%</td> <td data-bbox="1601 614 1915 694">Assumptions reasonable</td> </tr> <tr> <td data-bbox="840 694 1310 758">Salary growth</td> <td data-bbox="1310 694 1601 758">3.6%</td> <td data-bbox="1601 694 1915 758">Within expected range</td> </tr> <tr> <td data-bbox="840 758 1310 869">Life expectancy at 65 for current pensioners (male)</td> <td data-bbox="1310 758 1601 869">22.8 years</td> <td data-bbox="1601 758 1915 869">Assumptions reasonable</td> </tr> <tr> <td data-bbox="840 869 1310 989">Life expectancy at 65 for current pensioners (female)</td> <td data-bbox="1310 869 1601 989">25.5 years</td> <td data-bbox="1601 869 1915 989">Assumptions reasonable</td> </tr> </tbody> </table>	Assumption	Chorley Value (based on Mercers)	PwC Assessment of Mercers	Discount rate	2.4%	Within range	Pension increase rate	2.3%	Assumptions reasonable	Salary growth	3.6%	Within expected range	Life expectancy at 65 for current pensioners (male)	22.8 years	Assumptions reasonable	Life expectancy at 65 for current pensioners (female)	25.5 years	Assumptions reasonable
Assumption	Chorley Value (based on Mercers)	PwC Assessment of Mercers																		
Discount rate	2.4%	Within range																		
Pension increase rate	2.3%	Assumptions reasonable																		
Salary growth	3.6%	Within expected range																		
Life expectancy at 65 for current pensioners (male)	22.8 years	Assumptions reasonable																		
Life expectancy at 65 for current pensioners (female)	25.5 years	Assumptions reasonable																		
		<ul style="list-style-type: none"> No issues currently identified on the accuracy and completeness of the information Valuation method consistent No issues identified in the Council's share of pension scheme assets. Estimate as expected, and further review has taken place due to the McCloud issue Updated liability calculations and disclosure are to be considered for McCloud issues 																		

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

Management's assessment process

The Council prepared a detailed assessment of the appropriateness of management's use of the going concern assumption. The assessment covered:

- Medium to long-term planning
- Implications of government policy and legislation
- Forecasts and budgets
- Working capital and cashflow
- Reserves
- Provision and contingent liabilities

Auditor commentary

- 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
- The review was of a good standard and compares well to other assessments provided elsewhere
- The review was provided by the Deputy s151 Officer for the Council.

Concluding comments

Auditor commentary

- The review of going concern has no impact on the opinion which remains unmodified

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested confirmation of the Council's bank balances for the Cash and Cash Equivalent figure. All items were received. We also wrote to the Pension Fund Auditor and the District Valuer. Appropriate responses were received.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> Our cut-off testing identified a number of transactions relating to 2018/19 that have been coded to 2019-20. From a sample of 25 transactions coded to 2019-20 in the first two months of the financial year, 8 related to 2019-20. The value of these items ranged from £4.99 to £244.80. The Council has explained that due to time pressures in the closure process it is not possible to post accruals for all items. The approach is consistent with previous years.

Other responsibilities under the Code

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> 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 <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Chorley Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

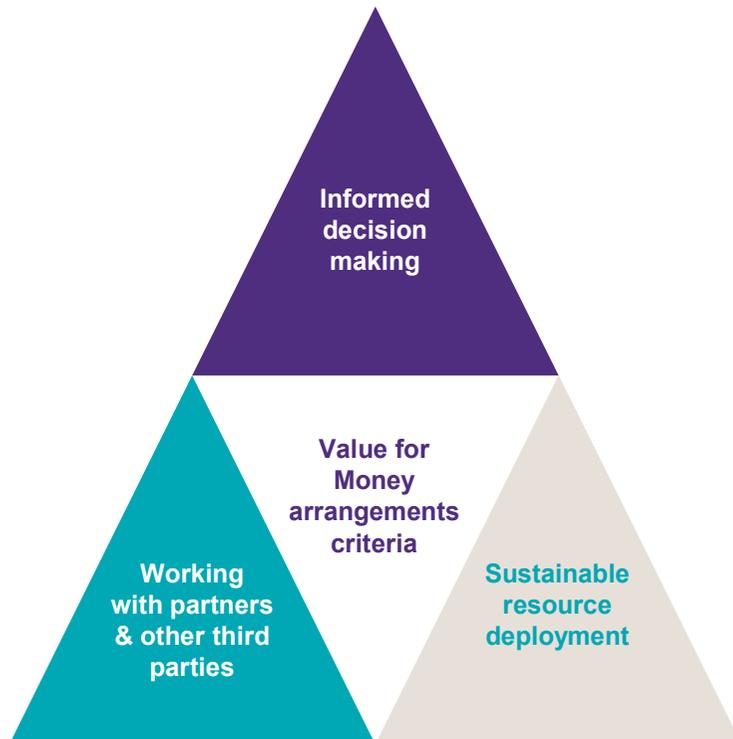
Background to our VFM approach

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 November 2017. 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 February 2019 and identified one significant risk 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 March 2019.

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.

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 delivery of the 2018/19 revenue budget and capital programme
- The robustness of future plans

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 the following pages

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed 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 and further risks identified through our ongoing review of documents.

Significant risk

Findings

Conclusion

1

There remain financial challenges over the next few years which the Council needs to meet. There is a risk that revenue budget and 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)
- considering the development of the housing company, including how the potential financial risks and rewards are being reflected in the Council's MTFS.

The Council has a proven track record of delivering both its revenue budget and key elements of its capital programme. Much of this is due to the work and future planning of the Council's management team supported by the finance team.

During 2018-19 the Council has met the challenge of delivering a balanced budget, reporting an underspend of £288,000. Continued focus is required on delivering the budget, given future uncertainties around issues such as funding and implications from Brexit.

The Council's capital programme is an ambitious one for a district council and is very much aimed at helping deliver key priorities. From an original capital programme of £26.1m approved in February 2018, which was increased to £34m due to amounts carried forward from 2017/18 and other adjustments, the Council was able to deliver almost £25m. Slippage or adjustments in the capital programme are not unusual but the amendments to planned spend tend not to be reported to Members until late in the year. Good progress was made on delivering the key capital projects including Market Walk, Primrose Gardens and the Digital Park

Looking forward, financial challenges remain and the Council has reported in its medium term financial strategy that it projects a cumulative gross budget deficit of £3.9m by 2021/22. Through a variety of initiatives and plans, such as reviewing fees and charges, productivity savings and council tax increases, the deficit reduces to an adjusted forecast cumulative deficit position of £1.7m. The Council remains confident that the budget deficit will be met by renegotiating contracts and transformation.

Our review of arrangements has built on the work completed in last year's VfM work. The Council has provided further assurance that the key transformation projects are being appropriately planned, managed and monitored.

Assumptions supporting the budget also appeared appropriate and were supported by explanations in the budget papers presented to Council in February, though those supporting medium term plans will need to be regularly reviewed and discussed with Members to ensure they remain consistent with any policy decisions. We did note that the papers presented to the February Council meeting were very thorough and gave a complete picture of the financial position and the consultation that took place in preparing the budget.

The Council continues to consider different models for delivering efficient services, for example through extending shared services and consideration of setting up a company. Such issues receive careful and detailed consideration by Officers to assist in ensuring that outcomes are maximised for Chorley residents.

Auditor view

- Our assessment concluded that the Council has appropriate arrangements in place

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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. No non-audit services were identified, however we have delivered some audit related services. Any threats to our independence and safeguards that have been applied to mitigate these threats have been set out in the table below.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Grant	9,750	Self-Interest (because this is potentially 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 is £9,750 in comparison to the total fee for the audit of £34,846 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.
Homes England	5,000	Self-Interest (because this is potentially 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 is £5,000 in comparison to the total fee for the audit of £34,846 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors [or explain exceptions. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Chorley Council's 2017/18 financial statements and VfM conclusion, which resulted in two recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> The disclosure checklist should be completed as part of the final accounts preparation. 	<ul style="list-style-type: none"> A disclosure checklist, which covered many areas of the accounts, was included within the working papers provided on the inflo system
2	✓	<ul style="list-style-type: none"> The Council should continue to closely manage and monitor its financial performance. Potential issues to consider are: <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Assumptions continue to be reviewed by the Council.

Assessment

- ✓ Action completed
- X Not yet addressed

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

No misstatements were identified on the key statements or the reported net expenditure for the year ending 31 March 2019.

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 Note	Detail	Auditor recommendations	Adjusted?
20 – Debtors	<ul style="list-style-type: none"> Review of the breakdown of the debtor balance identified that, within the debtor disclosure note: <ul style="list-style-type: none"> ➤ Trade receivables were overstated by £67k ➤ Prepayments were overstated by £67k 	<ul style="list-style-type: none"> Amendment of the disclosure note was requested. 	✓
33 – External Audit Costs	<ul style="list-style-type: none"> Fees for statutory inspection and audit needed to be reduced by £9k, as the cost of the Housing Benefit Subsidy claim was incorrectly included in that line Fees payable in respect of other services had to be increased by the same amount 	<ul style="list-style-type: none"> Amendment of the disclosure note was requested. 	✓
26b – Capital Adjustment Account	<ul style="list-style-type: none"> Minor reclassification of capital grant of £108k required within the note, to ensure consistency. 	<ul style="list-style-type: none"> Amendment of the disclosure note was requested 	✓

Other changes

Additional disclosure is likely to be required for the McCloud judgment issue and other events after the reporting period. We will update Committee Members at the meeting.

Other minor amendments were made relating to typo and rounding issues.

Fees

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

Audit Fees

	Proposed fee	Final proposed fee
Council Audit	34,846	TBC
Total audit fees (excluding VAT)	£34,846	TBC

- Due to the nature of this year's audit, which has resulted in additional audit procedures on the value of your pension liability and PPE, we are proposing to request additional fee. Where we charge additional fees the value has to be agreed with both the Council and Public Sector Audit Appointments Ltd. We will include the final proposed fee in our Annual Audit Letter.

Non Audit Fees

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits Subsidy Grant	9,750	Self-Interest (because this is potentially 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 is £9,750 in comparison to the total fee for the audit of £34,846 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.
Homes England	5,000	Self-Interest (because this is potentially 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 is £5,000 in comparison to the total fee for the audit of £34,846 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.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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.

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 Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer 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.

Other information

The Chief Financial Officer 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.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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)' 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.

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 and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report 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.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 41, 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 Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer 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 Chief Financial Officer 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.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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 November 2017, 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 2019.

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.

[Signature]

Name: Mark Heap, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

Xx July 2019

Management Letter of Representation

Our ref:
Your ref:

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

Xx July 2019

Dear Sirs
Chorley Borough Council
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council 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 2018/19 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 2018/19 ("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. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. 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.

vii. 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.

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.

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

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

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

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

xiii. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Management Letter of Representation

Information Provided

xiv. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. 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.

xviii. 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.

xix. 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.

xx. 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.

xxi. 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.

xxii. 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

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 24 July 2019.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body

