



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of 2007-2008 Accounts

February 2008

Authors: Alastair McQuaid and KPMG

Ref: 230A2008

Regulatory Plan for Work during 2008

Bridgend County Borough Council

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

Contents

Wales Audit Office work at your Council	4
The work of the appointed auditor	6
Work on behalf of the Auditor General	9
The work of other regulators	13
Appendices	
Regulatory Team	15
Role and responsibilities	16

DRAFT

Status of this report

This document has been prepared for the internal use of Bridgend County Borough Council as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

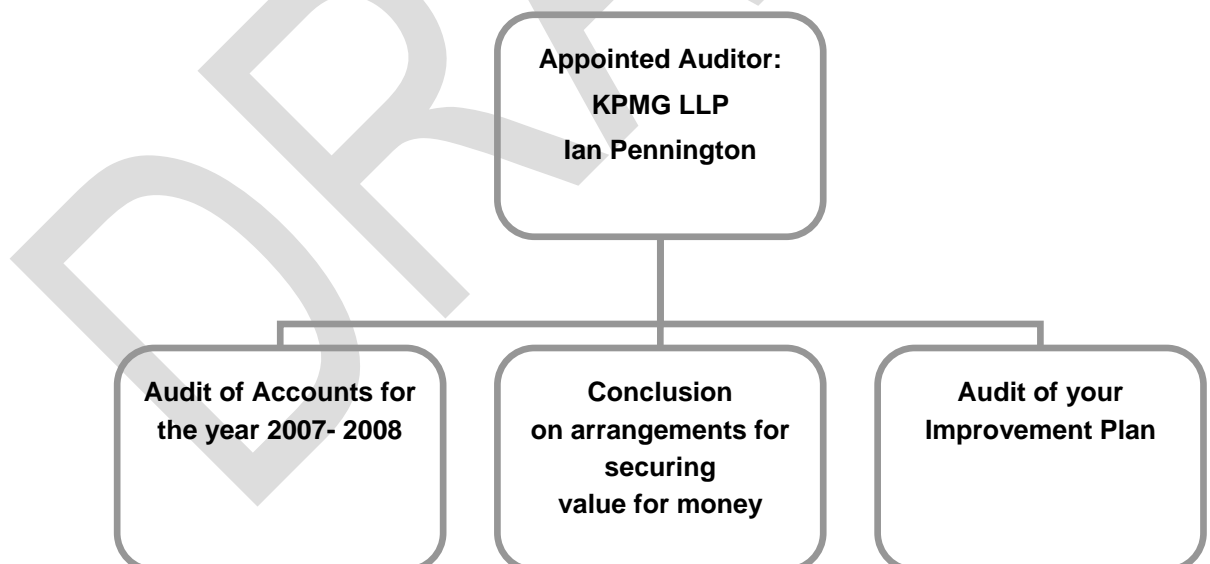
In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party.

Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

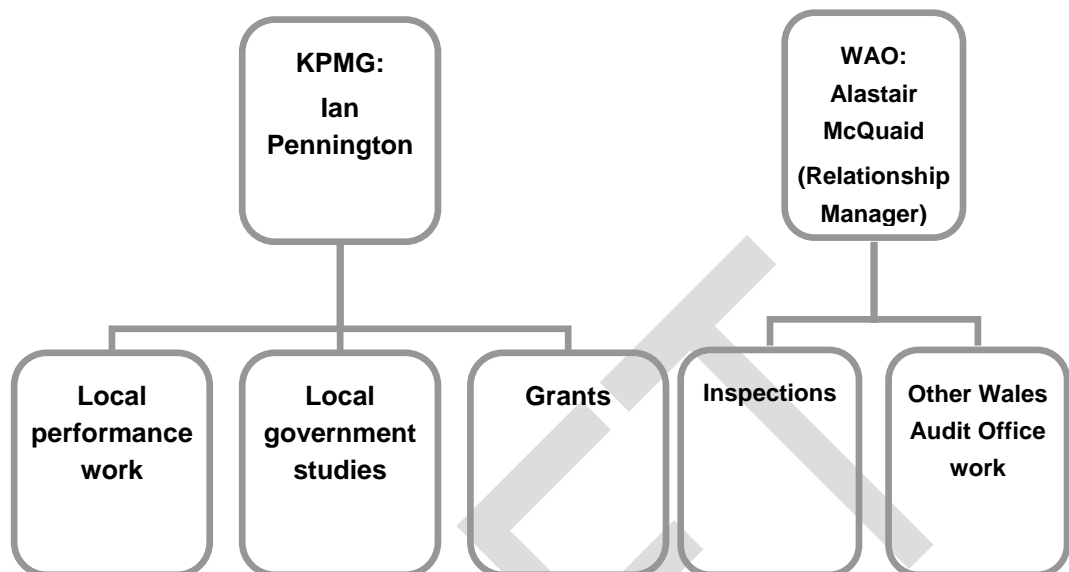
Wales Audit Office work at your Council

1. The Relationship Manager (RM) is a role established as part of the Wales Programme for Improvement for Local Government. The RM is responsible for the coordination of all audit and inspection work at specified Local Government Bodies.
2. Accordingly, the Auditor General for Wales' (Auditor General) RM has prepared this plan. It sets out the work to be delivered by, and on behalf of, the Auditor General and by his appointed auditors. It also covers the work of CSSIW and Estyn. It will be supplemented with a more detailed Financial Accounts Plan and more detail on each performance study. We have designed a programme of work to address the significant operational and financial risks that impact on our responsibilities.
3. The Plan focuses on two main areas:
 - Financial Audit; and
 - Performance (value for money audit and inspection) work.
4. Work carried out under this plan is summarised in Exhibit 1. In addition, Exhibit 8 on page 9 sets out the work of other regulators.

Exhibit 1a: Work delivered under this plan: work of the Appointed Auditor



**Exhibit 1b: Work delivered under this plan:
Work delivered on behalf of the Auditor General**



5. The Regulatory team members are all independent of the Council and your officers. In addition, we are not aware of any potential conflicts of interest which we need to bring to your attention. Appropriate contacts are set out at Appendix 1.
6. The roles and responsibilities of the regulatory team are set out in Appendix 2.
7. We will liaise closely with the Council:
 - when completing the more detailed Financial Accounts Plan and will keep you fully informed of any risks or issues as and when they arise; and
 - on the timing, scope and delivery of the performance work which may take more than one audit cycle to complete.
8. We will ensure our planned work is appropriate, and changes to the Plan may be required if any significant new risks emerge. No changes will be made without first discussing them with officers, and where relevant those charged with governance.
9. The proposed fee for work to be undertaken during 2008-2009, including the audit of the accounts for the year 2007–2008, is £395,169 (plus VAT) and will be charged in equal instalments between November 2007 and October 2008. The Auditor General has calculated the cost inflation of auditors as 3.7 per cent but has instructed his appointed auditors to find 1 per cent efficiency gains, giving a recommended uplift of 2.7 per cent. However, as Bridgend's Welsh Assembly Government (Assembly Government) settlement was 3.2 per cent, we have agreed with management to find efficiency savings of 1 per cent against the settlement figure, giving accounts, performance audit and performance inspection fee inflation of 2.2 per cent, which is below the Auditor General's recommendation. Our fee is set out in Exhibit 2.

Exhibit 2: The proposed fees for 2008-2009 including audit of accounts for 2007-2008

Area of the Code	Fees charged during 2007 - 2008 (£)	Proposed fees during 2008-2009 (£)
<i>Accounts</i>	154,500 (2006-2007)	157,900 (2007-2008)
<i>Performance Audit</i>	144,500	147,680
<i>Performance Inspection</i>	87,660	89,589
<i>Total</i>	386,660	395,169

10. We will produce a Regulatory Calendar showing all the current or planned work to be undertaken at the Council by the regulators. We will share it with the Council and all the regulators and update it quarterly.

The work of the appointed auditor

11. The Auditor General has appointed KPMG LLP as the external auditor to Bridgend County Borough Council (the Council).

The audit of accounts

12. The Appointed Auditor is required to issue an audit report on the financial statements which includes an opinion on:
- Whether the financial statements present fairly the state of affairs of the Council. This will provide assurance that the financial statements:
 - are free from material misstatement, whether caused by fraud or other irregularity or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
 - Whether the Statement on Internal Control has been presented in accordance with relevant requirements and is not inconsistent with our knowledge of the Council.
13. In order to issue the audit report and opinion on the financial statements, the Appointed Auditor must ensure that all the audit risks associated with the above are identified and addressed. An initial assessment of the risks has been undertaken, and these are set out in Exhibit 3 Financial Accounts.

Exhibit 3: Financial Accounts

Financial Accounts Risk	Key questions
<p>The Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (SoRP) introduces further significant changes to local authority accounting from 1 April 2007. These include:</p> <ul style="list-style-type: none"> • incorporation of Financial Reporting Standards 25, 26 and 29 which relate to financial instruments; and • requirement to replace the Fixed Asset Restatement Account with a Revaluation Reserve. 	<p>Do the Authority's Financial Statements comply with the requirements of the new SoRP?</p>
<p>Authorities across Wales are currently reviewing equal pay claims and job evaluation projects.</p> <p>The Authority made a provision in the 2006-2007 Financial Statements and recorded the uncertainties in a contingent liability disclosure. Management will need to assess the level of the provision as they continue their exercise of reviewing claims during 2007-2008.</p>	<p>Has the Authority made an accurate assessment of liabilities and made the appropriate disclosures in the accounts?</p>
<p>CIPFA/SOLACE have recently published 'Good Governance in Local Government – Framework', which reflects the principles contained in 'Good Governance Standards for Public Services'.</p> <p>The Governance Statement required by the Framework will subsume the current Statement on Internal Control. The Governance Statement is optional for Welsh authorities in 2007-2008.</p>	<p>Is the Authority up to date with new legislation?</p> <p>Does the Authority have the appropriate processes and procedures in place to ensure necessary evidence and assurances are gathered to support any new statement they may wish to present?</p>
<p>IT remains vital to the efficient operation and accounting of the Authority.</p>	<p>Does the Authority have appropriate general IT controls in place?</p>

14. The Appointed Auditor will be updating this risk assessment during the year and will produce a more detailed Financial Accounts Plan prior to any work being completed.
15. The Appointed Auditor will review the Council's mechanisms to achieve, measure, and demonstrate efficiency gains. The appointed auditor will also comment on the Council's overall declared gain and whether or not it has achieved its efficiency gains target for the year.
16. It is the Authority's responsibility to:
 - put in place systems of internal control to ensure the regularity and lawfulness of transactions;
 - maintain proper accounting records; and
 - prepare financial statements in accordance with relevant requirements.

Conclusion on arrangements for securing value for money

17. The Appointed Auditor has a duty to satisfy himself that the audited and inspected body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The main focus of this work will continue to be a review of the key corporate performance and financial management arrangements you are required to put in place as part of your system of internal control.
18. The Appointed Auditor's review of your arrangements will include the following aspects:
 - strategic and operational objectives;
 - policy and decision making;
 - meeting the needs of users and taxpayers;
 - internal controls;
 - risk management;
 - best value;
 - resource management;
 - performance management; and
 - standards of conduct.
19. The Appointed Auditor's conclusion on the existence of your arrangements will draw primarily on evidence secured as part of the routine audit work across the Code areas. The conclusion will also take into account any other available relevant sources of evidence, such as the results of local performance work studies and inspection carried out during the year.
20. *You are responsible for preparing and publishing with your financial statements, a statement made by those charged with governance relating to their review of the effectiveness of the systems of internal control.*

Auditing your Improvement Plan

21. In relation to the your Improvement Plan the auditor is required to issue a report:
 - certifying that he/she has audited the Plan;
 - stating whether he/she believes that it was prepared and published in accordance with Section 6 of the 1999 Act and any order or guidance under that section;
 - if appropriate, recommending how it should be amended so as to accord with Section 6 and any order or guidance under that section;
 - if appropriate, recommending procedures to be followed by the Council in relation to the Plan;
 - recommending whether the Auditor General should carry out a best value inspection of the Council under section 10A of the 1999 Act; and
 - recommending whether the Assembly Government should give a direction under section 15 of the 1999 Act.

Work on behalf of the Auditor General

22. Work on behalf of the Auditor General will not always be completed within one audit cycle. The nature of the Auditor General's work for the National Assembly's Audit Committee in particular means that it is developed and delivered over a longer timescale and as part of a rolling programme. The Auditor General's forward programme is flexible and responsive to external change.
23. All of the work delivered on behalf of the Auditor General is reported at the end of each year in the Annual Letter to the Council which is presented by the RM and the Appointed Auditor.

Local performance work

24. The risks identified (locally and nationally) as part of the risk assessment are set out in Exhibit 4.

Exhibit 4: Performance Audit Work for 2008-2009

Risk Based Performance Audit	
Risk	Key Questions
Local performance studies	
Child and Adolescent Mental Health Services (nationally mandated study).	Are local authorities, NHS Trusts and Local Health Boards working together effectively to design, commission and deliver modernised child and adolescent mental health services in line with the national action plan? The main output will be an all-Wales report published in late 2008.
The Authority has been developing its risk management process for several years and improvements have been made on the linking of key risks into directorate and individual service business plans. The continued development of this process is particularly important due to the restructuring programme which is currently underway.	Is the Authority's corporate risk management process appropriate and fully embedded within the organisation? Note – this work will be carried out in conjunction with the Wales Audit Office's review of service level risk management to ensure work is joined up with no overlap. We will continue to work with the Audit Committee and Internal Audit.
Fraud and corruption costs the public sector millions of pounds each year. It is therefore paramount that the Authority has in place robust and effective arrangements both to prevent and to detect fraud and corruption.	Does the Authority have in place robust and effective arrangements to prevent and detect fraud? (Note – we will be paying particular attention to areas outside the HB area, which is subject to review by other regulators.)

Risk	Key Questions
Arrangements – Financial Management	
The Authority continues to face financial pressures, coupled with expectations to meet increasing commitments and improve services. This creates pressure on reserves.	Does the Authority have adequate financial plans to manage known future pressures such as pension scheme deficits and equal pay / job evaluation liabilities? Are the Authority's arrangements for monitoring financial performance during the year adequate?
Arrangements – Performance Management	
Audit of the Corporate Improvement Plan (CIP).	Are the Authority's new key priorities being actioned by individual services? Does the Authority's CIP comply with relevant guidance?

Inspections

25. Inspection is the process of periodic, targeted scrutiny, to provide an independent check and to report on whether services are meeting national and local performance standards, legislative and professional requirements, and the needs of service users. The areas for inspection work are set out in Exhibit 5.
26. As part of the UK Government initiative to streamline inspectorates and reduce inspection costs and burdens, the Wales Audit Office will be taking up the risk-based inspection of the performance of local authorities' Housing Benefit (HB) and Council Tax Benefit (CTB) services currently undertaken by BFI, from April 2008. In order to inform the inspection programme from April 2008, bespoke risk assessments are being undertaken and the outcomes of these will be reflected in the updated regulatory calendars. Any inspection activity will be fully funded from the Benefits Inspection grant.

Exhibit 5: Performance Inspection Work for 2008-2009

Local Risk Based Performance Inspection	
Risk	Key questions
<p>Performance management</p> <p>Not achieving improvements in quality, access to and use of management information necessary to:</p> <ul style="list-style-type: none"> develop a balanced set of PIs; support performance management, financial management and project management decision-making, monitoring and review; provide understanding of and challenge to service management and delivery processes; and demonstrate improvements in economy, efficiency and effectiveness. 	<ul style="list-style-type: none"> Are the Corporate Priorities under the Transforming Bridgend agenda supported by appropriate, accurate and timely management information?

Risk	Key questions
<p>Management development</p> <p>Not developing management capacity and capability to support delivery of corporate objectives due to:</p> <ul style="list-style-type: none"> • failure of programme to achieve desired impact and outcomes, including supporting new management structures and processes; • failure of HR function strategic role to deliver management development programme; and • weak links between management development and systems for performance management and appraisal. 	<ul style="list-style-type: none"> • Are the Corporate Priorities under the Transforming Bridgend agenda supported by effective management development?
<p>Sustainability and equalities</p> <ul style="list-style-type: none"> • Not integrating sustainability and equalities into strategic planning and decision-making processes resulting in proposals that have not been assessed for economic, environmental and social sustainability. 	<ul style="list-style-type: none"> • Are the Corporate Priorities under the Transforming Bridgend agenda supported by a clear approach to sustainability and equalities?
<p>School modernisation</p> <ul style="list-style-type: none"> • Absence of a modernisation strategy restricting access or entitlement to Assembly Government grant support. • Impact of asset condition, repair costs (£34 million) and improvement costs (£120 million) on revenue and capital budgets. • Failure to fund schools to level required to achieve standards. 	<ul style="list-style-type: none"> • Are the Corporate Priorities under the Transforming Bridgend agenda supported by a robust approach to school modernisation?
<p>Support for Members' roles</p> <p>Insufficient development and support for Member's roles, particularly post-election with impact upon:</p> <ul style="list-style-type: none"> • making and scrutinising decisions effectively; • maintaining an overview of overall direction and service and financial performance; • challenging service performance and delivery; and • balancing responsibility and accountability to the Authority and the public. 	<ul style="list-style-type: none"> • Are the Corporate Priorities under the Transforming Bridgend agenda supported by effective development and support for elected Members?

Risk	Key questions
<p>Efficiency savings</p> <ul style="list-style-type: none"> Failure to deliver planned efficiencies (of 2.5 per cent in financial year 2007–2008 including reducing support service costs by £1 million), achieve budget targets and make best use of existing financial resources. Not addressing potential for achieving efficiencies across as well as within services due to absence of a co-ordinated approach. 	<ul style="list-style-type: none"> Are the Corporate Priorities under the Transforming Bridgend agenda supported by an effective approach to identifying and achieving efficiency savings? (Note – this question may be addressed thematically across the range of proposed inspections rather than treated separately. It would also be co-ordinated with audit work undertaken by KPMG).
<p>Follow-up</p> <ul style="list-style-type: none"> Failure to take appropriate and timely action in response to previous audit and inspection recommendations. 	<ul style="list-style-type: none"> Are the Corporate Priorities under the Transforming Bridgend agenda supported by effective responses to previous audit and inspection recommendations?

Local government studies

27. The Auditor General has a duty to undertake studies into particular areas of risk or opportunity in local government. The Auditor General's studies in local government will often, although not always, include all 22 local authorities and may form part of a wider cross-cutting or whole systems study.
28. Exhibit 6 below sets out the work to be delivered as part of the local government studies:

Exhibit 6: Local Government Studies

Timing	Proposed Work
Auditor General's Local Government Studies Programme (all Wales) *	
Making the Connections: asset management	Are the Welsh Public Services collectively ensuring that their approach to fleet and vehicle asset management makes best use of resources to support improvements in service delivery?
Good Practice Exchange	The Wales Audit Office Good Practice Exchange will be providing a range of support to implement either Smarter Ways of Working; Managing Sickness Absence or Occupational Health and Safety. This will be determined in negotiation with the Authority.

**These are fully funded from the WPI grant.*

Other Wales Audit Office work

29. The Wales Audit Office undertakes other work which will impact on councils as set out in Exhibit 7. This includes work undertaken as part of:
- the Auditor General's forward programme for the Audit Committee of the Assembly Government; and
 - bespoke work.

Exhibit 7: Auditor General's Forward Programme for the Audit Committee

Education of Looked After Children	The project scope is being developed at present but there may be potential for the Council to become involved in fieldwork.
------------------------------------	---

The work of other regulators

30. Estyn and the Care and Social Services Inspectorate for Wales (CSSIW) also undertake work that may impact on councils. The nature of that work and the legislative powers supporting it are described in Appendix 2.
31. Exhibit 8 sets out the other regulatory activity which is currently known. Estyn's programme from April 2008–March 2009 is currently being confirmed. This and other work which may arise will be included in updates of the Regulatory Calendar.

Exhibit 8: Other regulatory activity

Estyn	
No Inspection Planned for 2008-2009.	
CSSIW	
Monitoring protocol.	Dependent upon outcome of inspection in February 2008.
Annual performance evaluation.	Scheduled for Autumn 2008, including any follow-up of inspection undertaken in February 2008.
HMI of Probation	
Joint HMI of Probation / CSSIW inspection of Youth Offending Teams.	We have not yet been notified of inspections for 2008.

BFI	
Risk-based inspection of the performance of local authorities' HB and CTB services.	As part of the UK Government initiative to streamline inspectorates and reduce inspection costs and burdens, the Wales Audit Office will be taking up the risk-based inspection of the performance of local authorities' HB and CTB services currently undertaken by BFI, from April 2008. In order to inform the inspection programme from April 2008, bespoke risk assessments are being undertaken and the outcomes of these will be reflected in the updated regulatory calendars. Any inspection activity will be fully funded from the Benefits Inspection grant.

Certification of grant claims and returns

32. In carrying out work in relation to government grant claims and other returns, under Section 96B of the Government of Wales Act 1998, the Auditor General's appointed auditors act as agents of the Auditor General. The Auditor General is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken.
33. Charges for this work will be based on the skill-related fee scales set out in the local government fee letter published by the Auditor General. The actual fees to be charged will be determined in discussion with you and will reflect the size, complexity and any particular issues in respect of the grants in question. Although grant work fluctuates from year to year, depending to a large extent on the number of claims being submitted, we estimate on past experience that the total fee for grant work will be in the range of between £80,000 and £110,000. It is worth noting that we have worked closely with officers over the last few years to make the grants certification process as smooth and efficient as possible. Officers are now presenting claims in a more controlled and structured way, and the claims are on the whole containing fewer errors.

Appendix 1

Regulatory Team

Name	Role	Phone	Email
Alastair McQuaid (Wales Audit Office)	Relationship Manager	029 20 260 260	alastair.mcquaid@wao.gov.uk
Ian Pennington (KPMG)	Director	029 20 468 087	ian.pennington@kpmg.co.uk
Catherine Griffiths (KPMG)	Manager	029 20 468 014	catherine.griffiths@kpmg.co.uk
Malcolm Latham (Wales Audit Office)	Performance Project Manager	029 20 260 260	malcolm.latham@wao.gov.uk
Rhonwen Dobbing (CSSIW)	Link Inspector	029 20 825 655	rhonwen.dobbing@wales.gsi.gov.uk
Betsan O'Connor (Estyn)	District Inspector	029 20 446 333	betsan.o'connor@estyn.gsi.gov.uk
Lisa Williams (Wales Audit Office)	Performance Specialist	029 20 260 260	lisa.williams@wao.gov.uk

Appendix 2

Roles and responsibilities

The office of the Auditor General was established under the Government of Wales Act 1998. From 1 April 2005, the 2004 Act extended the Auditor General's functions to include the appointment of external auditors for local government bodies, and for undertaking inspections under the WPI (under the 1999 Act).

The Wales Audit Office comprises the Auditor General and his staff. The Auditor General's inspection powers, and the role of the RM, are derived from the Local Government Act 1999 (the 1999 Act) as amended by the Public Audit (Wales) Act 2004 (the 2004 Act).

Appointed Auditors

Appointed auditors must carry out an audit which discharges the statutory duties placed upon them by the 1999 and 2004 Acts. The Auditor General publishes a Code of Audit and Inspection Practice (the Code) which prescribes the way in which auditors are to carry out their functions.

Under Section 7 of the Accounts and Audit (Wales) Regulations 2005, local government bodies in Wales are required to produce annual statements of accounts¹. The Assembly Government's Local Government, Public Services and Culture Department supplement these regulations with guidance to assist local government bodies in their operation of the accounting regime. That guidance is not intended to be part of the statutory framework but is an informal commentary and provides details of where generally recognised published codes setting out proper practice may be found.

Under Section 13 of the 2004 Act, local government bodies in Wales are required to ensure that their accounts are audited by one or more auditors appointed by the Auditor General under section 14 of the Act. Sections 17 and 23 of the Act require appointed auditors to examine and certify the accounts, satisfying themselves that:

- the accounts are prepared in accordance with the Accounts and Audit (Wales) regulations;
- the accounts comply with the requirements of all other statutory provisions applicable to them;
- proper practices have been observed in the compilation of the accounts;
- the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and

¹ These regulations are made by the Assembly under the statutory powers contained in section 39 of the 2004 Act.

-
- the audited body has made such arrangements for collecting, recording and publishing information on standards of performance as are required by any direction under Section 47 of the Act.

Communication of audit matters with those charged with governance - ISA (UK and Ireland) 260

- ISA (UK and Ireland) 260 provides guidance on the communication of “relevant matters relating to the audit” of financial statements between auditors, and those charged with governance of an audited body.
- It requires the appointed auditor to report to those charged with governance (as distinct from management) certain matters before they give an opinion on the financial statements.

The appointed auditor will discharge the responsibility to report to those charged with governance by submitting reports to the Corporate Governance Committee and where necessary to the Cabinet in a timely manner, prior to the completion of audit.

Relationship Managers

The Auditor General's inspection powers, and the role of the RM, are derived from the Local Government Act 1999 (the 1999 Act) as amended by the Public Audit (Wales) Act 2004 (the 2004 Act). The 1999 Act also requires each local authority to prepare and publish a Best Value Performance Plan. The Assembly Government's Circular 28/2005 sets out how the WPI should be implemented, including the role of the RM.

Other regulators

The principal functions and powers under which CSSIW operates are contained in Chapter 6 of the Health and Social Care (Community Health and Standards) Act 2003.

Estyn normally agrees in advance with each council the focus and timing of education service inspections under Section 38 of the Education Act 1997. The details of these inspections are shared with the RM and are set out in the first version of the regulatory plan at the beginning of the financial year. Estyn also has powers established under Section 5(7) (a) of the Schools Inspection Act 1996 and Section 86 of the Learning and Skills Act 2000.

Other Estyn inspections which may involve council provision are carried out under the Learning and Skills Act 2000, the Teaching and Higher Education Act 1998 and an agreement between Estyn and Jobcentre Plus. The period of notice for these inspections has been established by agreement between Estyn and the service providers in each sector. As this period is often quite short (normally three months), it is not possible to publish at the beginning of the financial year details of any inspections for which the provider has not received notification. In these cases, as soon as the provider is notified of the inspection the details will be made available to Wales Audit Office, who will update the regulatory calendar accordingly.



DRAFT

Wales Audit Office
2-4 Park Grove
Cardiff CF10 3PA
Tel: 029 2026 0260
Fax: 029 2026 0026
Textphone: 029 2026 2646
E-mail: info@wao.gov.uk
Website: www.wao.gov.uk