



Audit 2008/9

Report to those
charged with
governance

**Bridgend County Borough
Council**

23 September 2009

AUDIT

Content

Page

The contacts at KPMG in connection with this report are:

Ian Pennington
Director
KPMG LLP (UK)

Tel:029 2046 8087
ian.pennington@kpmg.co.uk

Victoria de Zouche
Audit Manager
KPMG LLP (UK)

Tel:029 2046 8062
victoria.dezouche@kpmg.co.uk

Matthew Arthur
Assistant Manager
KPMG LLP (UK)

Tel:029 2046 8006
matthew.arthur@kpmg.co.uk

Accounts and Statement of Internal Control

2

Appendices:

1. Proposed audit report
2. Declaration of independence and objectivity
3. Draft management representations letter

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Wales Audit Office has issued a document entitled Statement of Responsibilities of Appointed Auditors, and Inspectors, and of Audited and Inspected Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington who is the engagement lead to the council, telephone 029 2046 8087 who will try to resolve your complaint. If you are dissatisfied with your response please contact Gilbert Lloyd, telephone 029 2046 8090 email gilbert.lloyd@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Wales Audit Office. After this, if you still dissatisfied with how your complaint has been handled you can contact the Complaint Investigation Manager at the Wales Audit Office, telephone 02920 260 260 or e-mail complaints@wao.gov.uk. The complaints investigation manager may also be contacted in writing at 2-4 Park Grove, Cardiff, CF10 3PA.

Accounts and Statement of Internal Control

Purpose of this document

We report to those charged with governance (in this case the Audit Committee) at the time you are considering the statement of accounts. We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

This document sets out the background papers to our report on the statement of accounts for the year ended 31 March 2009. It has been prepared for presentation to the Audit Committee on 23rd September 2009 where we will give a more detailed presentation to the Audit Committee of our opinions and findings.

Status of the Audit

We have now completed the accounts audit in line with the deadline. We have identified no issues in the course of the audit that are considered to be material or any material weaknesses in the Authority's internal controls. On receiving your management representations letter we expect to issue an unqualified audit opinion on 23rd September 2009. We do not propose to modify our report. Our proposed opinion on the accounts is presented in Appendix 1.

Representation letter

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a draft of the Council's proposed letter as Appendix 3. Once we have received the final signed representation letter we expect to issue our audit opinion.

Use of Resources

Our conclusion on Bridgend County Borough Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009 will be reported separately in the published Relationship Manager's Annual Letter.

Other Matters

Under ISA 260, we also report where specific circumstances arise, including where we detect that there is suspected or actual fraud, even where this is not material to the accounts, unless prohibited from doing so by money laundering regulations. In addition we report whether the Authority's accounting statements and related notes and other information in the statement of accounts are inconsistent. We also report any material weaknesses in Internal Control identified during the audit or matters which we feel are of governance interest.

There are no such matters to report although you should be aware that we do not provide a comprehensive statement of all weaknesses that may exist in internal controls or where improvements may be made but have only addressed those matters which have come to our attention as a result of audit procedures performed.

Declaration of independence and objectivity

As part of the accounts finalisation process, we are required to provide you with representations concerning our independence and ability to act as your auditors.

In relation to the audit of the financial statements of Bridgend County Borough Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Bridgend County Borough Council, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Wales Audit Office's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Appendix 1: Proposed audit report

Independent auditors' report to the Members of Bridgend County Borough Council

We have audited the accounting statements of Bridgend County Borough Council for the year ended 31 March 2009 under the Public Audit (Wales) Act 2004. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on Council Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes. The accounting statements have been prepared under the accounting policies set out in the statement of accounting policies.

This report is made solely to Bridgend County Borough Council, as a body, in accordance with Part 2 of the Public Audit (Wales) Act 2004 and for no other purpose, as set out in paragraph 46 of the Statement of the responsibilities of the auditors appointed by the Auditor General for Wales and his inspectors, and of the bodies that they audit and inspect (2008) prepared by the Auditor General for Wales. Our audit work has been undertaken so that we might state to Bridgend County Borough Council, as a body, those matters we are required to state to it 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 any one other than Bridgend County Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Corporate Director – Resources and the independent auditors

The Corporate Director – Resources' responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – a Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes present fairly in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – a Statement of Recommended Practice the financial position of Bridgend County Borough Council as at 31 March 2009 and its income and expenditure for the year then ended.

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

We read other information published with the accounting statements and related notes, and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

Appendix 1: Proposed audit report (continued)

Basis of audit opinion

We conducted our audit in accordance with the Public Audit (Wales) Act 2004, the Code of Audit and Inspection Practice issued by the Auditor General for Wales, and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion on the accounting statements of Bridgend County Borough Council

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – a Statement of Recommended Practice, the financial position of Bridgend County Borough Council as at 31 March 2009 and its income and expenditure for the year then ended.

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

Our conclusion on Bridgend County Borough Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009 will be reported separately in the published Relationship Manager's Annual Letter.

Certificate of completion

We certify that we have completed the audit of the accounts of Bridgend County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit and Inspection Practice issued by the Auditor General for Wales.

KPMG LLP
Appointed Auditors
Chartered Accountants
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE

23 September 2009

Appendix 2: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Auditor General for Wales must comply with the General Principles contained within *the Auditor General's Code of Audit and Inspection Practice* (the Code) which states that auditors must, "be, and be seen to be, independent." As a result:

"Auditors and inspectors carry out their work with independence and objectivity, in accordance with appropriate ethical standards. Their opinions, conclusions and recommendations should be, and be seen to be, impartial."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his opinion. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Director and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor Declaration

In relation to the audit of the financial statements of Bridgend County Borough Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and the Council, its members and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Auditor General for Wales' requirements in relation to independence and objectivity

Appendix 3: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, the following representations given to you in connection with your audit of the financial statements for Bridgend County Borough Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Bridgend County Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – a Statement of Recommended Practice and wider UK accounting standards. We have considered and approved the financial statements.

Fraud

We confirm that we:

- understand that the term “fraud” includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity’s assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, analysts, regulators or others; and
- 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.

We confirm that the presentation and disclosure of the fair value measurements of material assets and liabilities are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

Appendix 3: Draft management representation letter (continued)

Fixed assets

All assets over the de minimis level are capitalised. They are revalued every five years. Also, this year, asset values have been reviewed for impairment in light of the current economic climate and are reflected in the financial statements accordingly. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Authority's operations.

Investments

All investments included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all investments owned by the Authority. The Authority's investments have been reviewed for impairment and any such impairment is reflected in the financial statements accordingly.

Current assets

On realisation in the ordinary course of the Authority's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

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

Contingent Liabilities

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

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.
- With reference to the specific issues on which you have requested assurances from Members, we confirm that we are aware of our responsibility to prepare FRS 17 disclosures using assumptions suggested by our professional advisors but that these assumptions remain the responsibility of the Authority.

Internal control

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

Unadjusted errors

The attached schedule of unadjusted errors has been brought to our attention.

We consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Post balance sheet events

Except as disclosed in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

This letter was tabled at the meeting of the Audit Committee on 23rd September 2009.

Yours faithfully

Gareth Moss
Corporate Director - Resources