



LOCAL GOVERNMENT

Bridgend County Borough Council

Financial Statements Audit Plan

31 March 2010

PUBLIC SECTOR AUDIT

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 the Bodies that they audit and inspect. 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 director to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Virginia Stevens on 029 2046 8009, email virginia.stevens@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Wales Audit Office. After this, if you are still dissatisfied with how your complaint has been handled you can contact the Complaint Investigation Manager at the Wales Audit Office, telephone 02920 320500 or e-mail complaints@wao.gov.uk. The complaints investigation manager may also be contacted in writing at 24 Cathedral Road, Cardiff CF11 9LJ.

Summary

Our audit is divided into:

- use of resources; and
- financial statements.

This document describes how we will deliver our audit work for Bridgend County Borough Council.

Our statutory responsibilities and powers are set out in the *Local Government Act 1999* (as amended by the *Public Audit (Wales) Act 2004* and the Auditor General for Wales' *Code of Audit and Inspection Practice (the Code)*.

The Code summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The *Statement of Responsibilities of Appointed Auditors and Inspectors, and of the Bodies that they audit and inspect* sets out the respective responsibilities of the auditor and the Council. The table below summarises the work will do in response to the risks identified this year.

Our Responsibility	Risks, Proposed work and output
Financial Statements and Annual Governance Statement	<p>Key risks identified are as follows:</p> <ul style="list-style-type: none"> • Changes in the Statement of Recommended Practice regarding accounting for PFI schemes and leases • The council's revaluation of its property portfolio as at 1 April 2009 • The need to accurately assess liabilities for equal pay claims and the job evaluation project <p>Our work will encompass:</p> <ul style="list-style-type: none"> • Review of the controls over the completion of the accounts. We will rely on Internal Audit wherever possible to avoid duplication. • A detailed audit of the financial statements, associated disclosure notes and the Annual Governance Statement. • Specifically addressing the risks above, including an evaluation of the external valuer in line with ISA 620 <p><i>The findings of this work support the audit opinion that we issue on your financial statements.</i></p>
Use of Resources	<ul style="list-style-type: none"> • Assessing whether you have arrangements in place to secure economy, efficiency and effectiveness in your use of resources. Last year we assessed the Council's overall direction of travel as "improving", • We have maintained dialogue with officers and have kept up to date with developments at the Council. Our use of resources work has been adapted to respond to the changing risk environment within which the Council Operates. Key matters include the Council's medium term financial planning, delays to the job evaluation process and the implementation of the Council's Asset Management plan. • We link this work with work being carried out through the Local Government Measure.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. The remainder of this document provides details of our risk assessment, proposed work and fees for our work on the financial statements audit.

Audit overview

We undertake our work on your financial statements and Annual Governance Statement (AGS) in four key stages.

Our work results in our audit opinion on your financial statements.

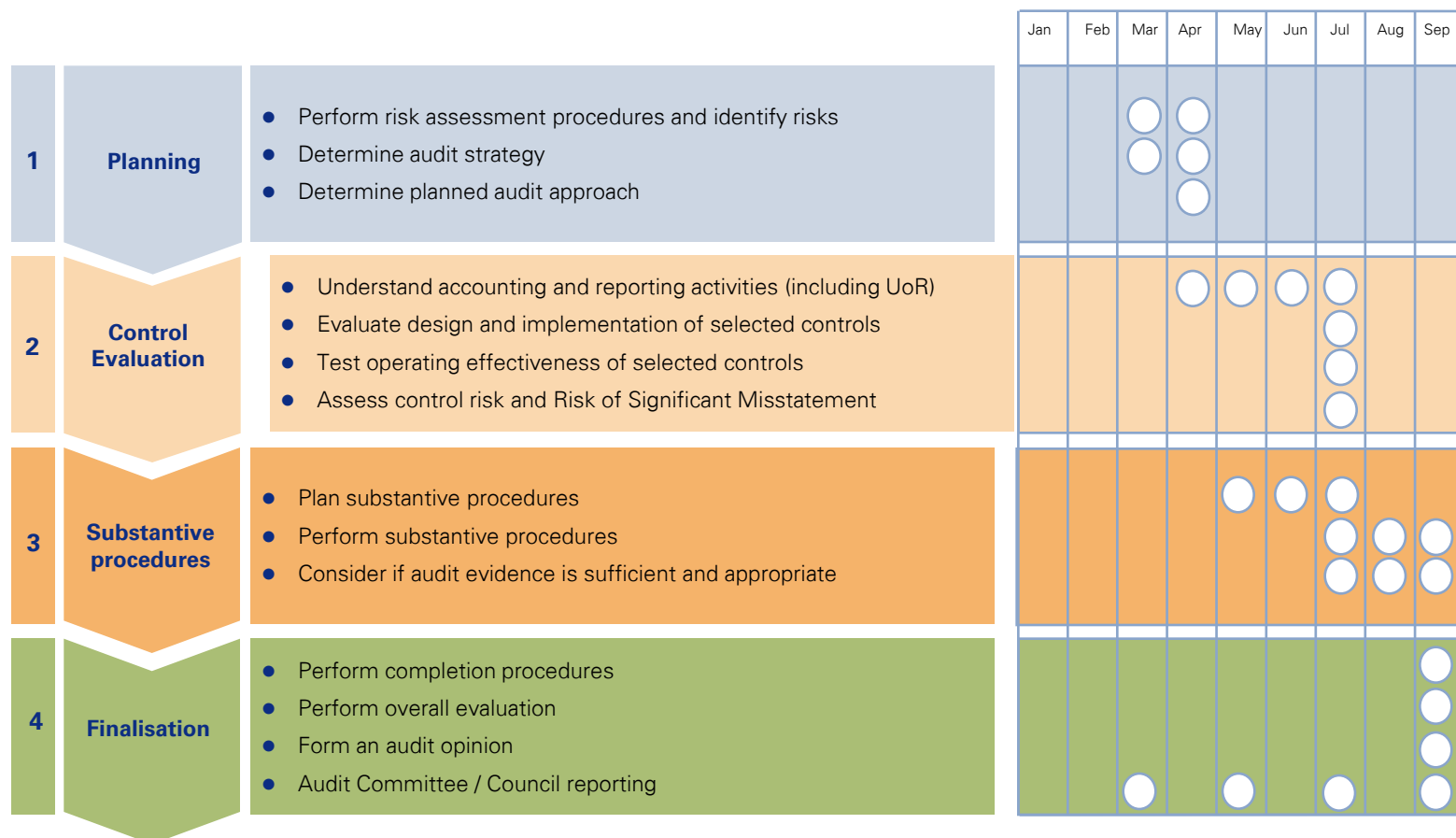
We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We are required to provide an audit opinion on the accounts.

We are also required to satisfy ourselves that your AGS is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this opinion.

In addition to the Council's financial statements, we are also required to audit and provide an opinion on the Whole of Government Accounts.

Our Audit Process

We have summarised the four key stages of our financial statements audit process for you below:



We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Our Audit Process (continued)

As part of our audit process, we will work closely with the finance team to understand and continually improve the accounts production process. At the planning stage of our audit we will issue the Council with a 'prepared by client' list which will include a detailed schedule of information requests to support the financial statements.

Our audit procedures also include an assessment of your arrangements to deliver your responsibilities to prevent and detect fraud. The auditing standard for fraud, ISA240 (revised), responds to the increased sensitivity to fraud and the importance given to auditors' work on fraud. Additionally, the Fraud Act 2006 and the Government Review of Fraud 2006 may impact on your responsibilities to manage fraud.

Liaising with internal audit

We have a strong working relationship with Internal Audit and we will continue to work closely with them to maximise the effectiveness of their work on core financial systems and governance at the Council.

Determining materiality

- We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.
- Materiality is calculated as a proportion of gross expenditure.

Reporting to Audit Committee

- To comply with auditing standards, the following three types of audit differences will be presented to the Audit Committee:
 - summary of adjusted audit differences;
 - summary of unadjusted audit differences; and
 - summary of disclosure differences (adjusted and unadjusted).

We work with your finance team and internal audit team to enhance the efficiency of the accounts audit.

Whole of government accounts (WGA)

KPMG are required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the Wales Audit Office. The 2009/10 WGA consolidated pack will need to be produced in accordance with the Code. In 2009/10, we will audit the draft WGA consolidated pack in July, and report on our findings in our ISA 260 report to the Audit Committee in September.

National Fraud Initiative

The Council participates in the National Fraud Initiative, which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies. During our audit we will review the Council's progress and actions in following up the matches identified.

Certification of grant claims and returns

KPMG will continue to certify the Council's claims and returns on the following basis, on the provision that no change is to be made to these limits by the Wales Audit Office:

- claims below £50,000 will not be subject to certification;
- claims between £50,000 and £100,000 will be subject to a reduced, light-touch certification; and
- claims over £100,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Elector Challenge

The Public Audit (Wales) Act 2004 gives electors certain rights. These are:





- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised. The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Wales Audit Office's fee scales.

Key financial statement audit risk

For each key risk audit area we have outlined the impact on our audit plan.

We will provide an update to the Audit Committee on these risk issues.

KEY audit risks	Impact on audit plan
 <p>Valuation of Council Assets</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Tangible fixed assets • Revaluation reserve 	<p>Valuation of Council Assets</p> <ul style="list-style-type: none"> • We will review third party valuations obtained by the Council to ensure that asset values have been correctly recorded in asset registers and the financial statements. • We will assess valuation assumptions for appropriateness and evaluate the work of the external valuer. • We will review the Council's processes for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.
 <p>Equal pay / job evaluation</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Provisions • Ear-marked reserves 	<p>Equal pay / job evaluation</p> <ul style="list-style-type: none"> • We will review the number of equal pay claims received by the Council, discuss the potential liability with the legal department and review communication with third party lawyers. • We will discuss the progress of the job evaluation scheme, and consider the need to recognise a provision for back-pay (from 1 April 2007) under the scheme.
 <p>Private Finance Initiative - IFRS</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Tangible fixed assets • Liabilities under PFI • Disclosures 	<p>Private Finance Initiative - IFRS</p> <ul style="list-style-type: none"> • The Council must account for Private Finance Initiatives in line with the CIPFA SORP 2009. The SORP adopts IFRS PFI accounting for the first time in 2009 and may result in some assets being accounted for in the Council's balance sheet for the first time. • We will review the Council's current PFI contract (Maesteg School) and consider the financial model that has been used to account for these arrangements to ensure that balances have been correctly disclosed in the financial statements.
 <p>Implementation of IFRS</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> • Financial statement presentation 	<p>Implementation of IFRS</p> <ul style="list-style-type: none"> • We will review the Council's progress on implementing IFRS against its detailed convergence plan. In particular we will consider the steps taken to restate opening balances. • We will hold regular discussions with officers to identify areas of pressure where difficulties are being experienced. We will offer support and guidance during the convergence process.

Audit Team

The core of our audit team is unchanged from last year with Ian Pennington leading the engagement, and Matthew Arthur managing the field work. Katie Evans will act as Audit Manager.

The audit team will be assisted by other KPMG specialists when necessary.

Our Audit Team

Our core audit team consists of the following members:

Role	Name	Responsibilities
Engagement Lead	Ian Pennington	Ian's role is to lead our team and ensure the delivery of a high quality external audit opinion. He will be the main point of contact for the Audit Committee and the Chief Executive.
Audit Manager	Katie Evans	Katie will provide strategic direction for the audit and will work closely with Ian to ensure we add value. Katie will also direct and help co-ordinate and review the audit work on a day to day basis and will work closely with Matt to deliver an efficient audit. She will be the main contact for the Chief Finance Officer and other executive directors.
Audit Assistant Manager	Matthew Arthur	Matt will be your day to day contact and will work closely with Katie to deliver a co-ordinated and efficient audit.

Audit Fees

The audit fee has changed from last year as a result of the Local Government Measure work to be performed under the new legislation in 2009/10

Our fee is calculated with reference to a number of factors including your turnover and our assessment of audit risk and control environment. The decrease over 2008/09 is 2%. This reflects a reduction in risk around the financial statement audit which has been offset by a one-off piece of work on the IFRS opening balance sheet (which is similar to work being carried out across Wales). We anticipate an increase in certification of claims and returns as a result of anticipated structural funds reports to be required by the Wales Audit Office in 2009/10.

Element of the audit	2009/10
Accounts (Systems and Final)	£210,000
Local Government Measure	£80,500
Certification of claims and returns (estimate)	£90,000
IFRS Opening balance sheet – one-off work	£10,000
TOTAL	£390,500

Local Government Measure

As part of the work to be performed around the Local Government Measure, we will conduct work in the following areas:

- Risk Management – we will update our evaluation of Risk Management at the Council through interviews and reviews of policies and procedures in place
- Resource management – we will conduct interviews and review documented plans in relation to financial and workforce planning
- High level process analysis – we will document key business processes and explore how these operate in practice, identifying areas for further focus during the rest of the year

Audit Fees (continued)

Our audit fee is indicative and based on you meeting our expectations of your support as outlined in Appendix 1.

Meeting these expectations will help to the delivery of our audit within the proposed audit fee.

Audit fee assumptions

The audit fee indicative and is based on you meeting our agreed expectations as outlined in Appendix 2. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2009/10 financial statements;
- your financial statements are made available for audit in line with the agreed timescales;
- good quality working papers and records will be provided at the start of the final accounts audit;
- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Wales Audit Office or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Head of Finance.

Audit Timeline & Deliverables

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Council's officers prior to publication.

Deliverable	Purpose	Timing
Planning		
Audit plan	<ul style="list-style-type: none"> Outline audit approach Identify areas of audit focus and planned procedures Confirm plan with Audit Committee 	March 2010 April 2010 8 July 2010
Year end audit		
Report to those charged with governance (ISA 260)	<ul style="list-style-type: none"> Auditors' report on the Council's financial statements Auditors' report on the Council 's use of resources Detail the resolution of key audit issues Communication of adjusted and unadjusted audit differences Communication of control recommendations Performance improvement recommendations identified during our audit 	September 2010 Audit Committee
Opinion on financial statements		30 September 2010
Annual audit letter	<ul style="list-style-type: none"> Final arrangements to be confirmed by WAO 	To be confirmed

Appendix 1: Meeting your expectations

How we will conduct ourselves

Communications

- We will be proactive in developing relationships with your staff where our audit work requires their input.
- We will ensure that all letters and emails are answered within five working days of receipt. All telephone messages received will receive a response within 24 hours.
- We will ensure that all recommendations, and in particular those relating to our performance management work, are included within our Annual Audit Letter only after having been agreed with relevant Directors.
- Ian Pennington or Katie Evans will attend all Audit Committee meetings and ensure that other relevant KPMG staff are invited as appropriate.

Working together

- We will ensure that the Head of Property and Finance, Chief Accountant and other key members of staff are kept informed of the progress of our audit work throughout the year.
- We will liaise with staff at all levels of the Council to ensure that our work is appropriately planned and completed and where recommendations are made these are agreed with the likely responsible officer.

Cooperating with the Council

- We will continue to coordinate our work with that of internal audit and ensure that we provide appropriate proactive commentary to the finance function on issues that affect the Council's accounts.
- We will respond promptly to requests for comment on aspects of the Council's operations, where appropriate.

Our expectations of your support

Audit Plan

- Brief our staff on key issues affecting the Council.
- Review and agree the draft plan.

Interim Audit

- Facilitate the completion of internal audit's work (particularly on core financial systems) to timetable.
- Ensure that key officers are available for the duration of our audit.
- Respond to and agree our draft reports in good time.

Accounts Audit

- Ensure that a full draft of the accounts is available at least one week prior to the agreed start date of our audit, and that only agreed adjustments are put into the accounts following receipt of this draft.
- Produce the documents listed within our prepared by client request by the agreed start date of our audit.
- Ensure that the mandatory content of the Annual Report is available at the agreed time of our final account audit.

Annual Audit Letter

- Discuss and agree our draft Annual Audit Letter in good time for the Audit Committee.
- Ensure that all action plans are agreed and followed up in due course.

Other work

- Agree a key Council contact as a focal point for the study or work.
- Discuss and review our findings so that action plans can be fully completed and implemented.

Appendix 2: Independence and objectivity requirements

This appendix summarises the auditor's responsibilities regarding independence and objectivity.

Declaration of Independence and Objectivity 2009/10

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 auditors' professional judgement, the auditors are independent and the auditor's objectivity is not compromised, or otherwise declare that the auditors have concerns that the auditors' objectivity and independence may be compromised and explaining the actions which necessarily follow from their 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.

Auditors' Declaration

We will declare our independence and objectivity formally to the those charged with governance at the end of the 2009/10 audit.

Appendix 3: Sustainability

This appendix summarises the auditor's commitment to sustainability.

Sustainability

We are committed to promoting sustainability in working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate;
- reducing travel; and
- other initiatives.

KPMG are also taking steps to improve our environmental performance. Achievements to date include:

- all offices certified ISO14001, the leading international standard for environmental management systems;
- our Responsible Consumption programme enables our people to actively contribute to the firm being environmentally responsible;
- more than 40 percent of paper purchased is recycled paper;
- over 90 percent of the electricity used in buildings is now from renewable sources; and
- some 1.8 million travel miles have been saved through car sharing schemes and 1.5 million miles have been saved through audio and video conferencing.

Appendix 4: Amendments to the SORP

This appendix summarises the changes to the SORP affecting the 2009/10 financial statements

PFI Schemes

The SORP 2009 introduces a requirement for the accounting arrangements for PFI and similar schemes to be based upon a mirror image of IFRIC 12 *Services Concession Arrangements*. Appendix E of SORP 2009 applies that where:

- a) The local authority controls or regulates what services the operator must provide with the property; to whom it must provide them; at what price and where
- b) The local authority controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the property at the end of the term of the arrangement.

Where the control tests are not met, the arrangement shall be accounted for in accordance with the general provisions of the SORP, as follows:

- where neither test is met, expenditure shall be recognised as it is incurred.
- where test (a) is met but test (b) is not, an authority shall consider whether the arrangement is in substance a lease and if so shall account for it as such.
- where test (b) is met but test (a) is not, an authority shall recognise as an asset the excess of the expected fair value of the property at the end of the arrangement over the amount it will be required to pay the operator upon reversion. This asset shall be built up from payments made by the authority to the operator over the life of the arrangement.

Recognition of PFI assets will increase the capital financing requirement and the Council should ensure that borrowing limits are amended to reflect the impact of PFI being included on the balance sheet. This will also impact the MRP.

Council tax

The SORP 2009 provides clarification on the accounting requirements relating to council tax and requires:

- all Council tax income to be included in the billing authority's Income and Expenditure Account; and
- precepts paid to major preceptors to be presented as expenditure.

This will represent a change in accounting policy where council tax income has previously been presented net of precepts.

Financial instruments

The SORP 2009 continues to require loans (financial liabilities) and loans and receivables (financial assets) to be carried at amortised cost. However, the SORP 2009 clarifies that the portion of financial liabilities and financial assets due to be settled within 12 months of the Balance Sheet date should be presented as current liabilities / assets.

The amounts should continue to be disclosed as financial liabilities / assets rather than creditors / debtors. The 2008/2009 disclosures will need to be restated if the Council has not adopted this approach in the past.

Appendix 4: Amendments to the SORP (continued)

This appendix summarises the changes to the SORP affecting the 2009/10 financial statements

NNDR

The SORP 2009 requires billing authorities to account for NNDR as an agent. This represents a change in accounting policy resulting in the need for the 2008/09 accounts to be restated. NNDR debtors i.e. due but not yet collected, will no longer be disclosed in the balance sheet. Only NNDR collected but not paid to the Assembly Government and NNDR paid to the Assembly Government in advance of it being collected will be accounted for in the Balance Sheet of billing authorities.

The cash flow statement should generally include receipts of NNDR from taxpayers and payments to the pool. However:

- a receipt equal to the “costs of collection” allowance, retained by the local government body, will need to be recognised; and
- discretionary relief granted by the local government body will need to be recognised as a payment.

The Income and Expenditure Accounts of the billing authority will need to recognise:

- income equal to the “costs of collection” allowance; and
- discretionary relief granted and met by the authority.

Disclosure notes

Five disclosure notes not required by accounting standards or legislation but required by the SORP 2008 have been removed as requirements of the SORP 2009. Councils are not therefore required to make the following disclosures in 2009/2010 and future years:

- section 137 expenditure;
- expenditure on publicity;
- the building control account;
- Business Improvement District Schemes; or
- income under the Local Authorities Goods and Services Act.

Appendix 5: Amendments to Accounts and Audit Regulations

This appendix summarises the changes to Accounts and Audit Regulations affecting the 2009/10 financial statements

Remuneration bands and disclosures

The number of employees other than 'senior employees', whose remuneration is at least £60,000 is to be listed in bands of £5,000 instead of £10,000. Further disclosure is required for the remuneration of senior employees (defined as being an employee whose salary is £150,000 or more or an employee whose salary is £60,000 or more and is head of paid service, a chief officer or someone who directs and controls major activities of the local government body).

The information to be disclosed relating to senior employees is:

- salary, fees or allowances;
- bonus payments;
- taxable Expenses;
- compensation for loss of employment;
- employers pension contribution; and
- any other benefits / payments.

The job title, only, of senior employees whose salary is less than £150,000 is required to be disclosed. However, the disclosure must also contain the names of officers whose salary is £150,000 or more.

True and fair view

The amended regulations introduce a requirement for the Responsible Financial Officer (RFO) of all bodies, other than those required to produce an Income and Expenditure Account and Statement of Balances and Community Councils, to certify that the accounts give a "true and fair view". Previously the RFO was required to certify that the accounts "present fairly".

Approval of the accounts

Regulation 11 of the 2010 Regulations amends the previous requirement for local government bodies to approve the accounts by no later than 30 June. Local government bodies must now approve the accounts by 30 September.

The accounts will, in 2009/10 and future years, be approved by the local government body after the auditor has reported findings from the audit to those charged with governance but prior to the issue of the audit opinion or 30 September, whichever is earlier.

The amended regulations also clarify that the accounts must be approved again if the first approval was given before the auditor was in a position to conclude the audit of the accounts.