



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

Annual Financial Audit Outline

Bridgend County Borough Council

Audit year: 2011-12

Issued: 15 March 2012

Document reference: BCBCA2012

Status of document

This document was produced by KPMG LLP on behalf of the Appointed Auditor, Anthony Barrett.

This document has been prepared for the internal use of Bridgend County Borough Council as part of work performed/to be performed in accordance with statutory functions, the Code of Audit 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.

Contents

Annual Financial Audit Outline

Roles and responsibilities	4
The audit approach	5
Reporting	9
Audit fee	10

Appendices

Key elements of the audit engagement	11
Financial audit team	13

Annual Financial Audit Outline

Roles and responsibilities

1. This Annual Financial Audit Outline has been prepared to meet the requirements of auditing standards and proper audit practices. It provides Bridgend County Borough Council (the Council) with an outline of the financial audit work required for the 2011-12 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the Auditor General for Wales (Auditor General) is responsible for appointing external auditors (Appointed Auditors) to local government bodies.
3. As Appointed Auditor, I am required by the Public Audit (Wales) Act 2004 to examine and certify the accounts of the Council satisfying myself that the accounts:
 - give a true and fair view of the Council's financial position;
 - comply with all relevant legislative requirements; and
 - have been prepared in accordance with proper accounting practices.
4. I am also required to:
 - satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - certify that the audit has been completed in accordance with the Public Audit (Wales) Act 2004.
5. The audit does not relieve the Council of its responsibility to:
 - put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
 - maintain proper accounting records;
 - prepare a Statement of Accounts in accordance with relevant requirements; and
 - establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.
6. The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect the Council's financial statements, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key requirements of the Auditor General and the Appointed Auditor are set out in [Appendix 1](#).
8. A separate document, *the Auditor General's Regulatory Programme for Performance Audit*, will be issued setting out the work to be delivered by the Auditor General under the Local Government Measure 2009.

-
9. The Auditor General is required to certify certain grant claims and returns. The Appointed Auditor, acting as an agent of the Auditor General, undertakes the audit work relating to those claims and returns.

The audit approach

The audit team

10. Information regarding the financial audit team is provided in [Appendix 2](#).

Audit of financial statements

11. Internal controls are designed, implemented and maintained by the Council to address identified business risks that threaten the achievement of an audited body's objectives regarding:
- the reliability of its financial reporting;
 - the effectiveness and efficiency of its operations; and
 - its compliance with applicable laws and regulations.
12. I will:
- assess the effectiveness of high level internal controls and key system level internal controls in preventing and detecting material errors in the accounting statements;
 - assess the effectiveness of Internal Audit;
 - review and seek to place reliance upon work undertaken by Internal Audit, as appropriate; and
 - develop substantive procedures to respond to specific risks of material misstatement in the accounting statements.
13. I do not seek to obtain absolute assurance that the financial statements and related notes are true and fair, but adopt the concept of materiality. In planning and conducting the audit, I seek to identify material misstatements in the accounting statements and related notes, that is, those that might result in a reader of the accounts being misled.
14. The levels at which I judge such misstatements to be material will be reported in my report to the Audit Committee prior to completion of the audit.

Risks of material misstatement in the accounting statements

15. **Exhibit 1** provides information regarding the main operational and financial risks faced by the Council that could impact on my audit. These are the main risks that have been identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. Changes to the audit may be required if any new risks emerge. No changes will be made without first discussing them with officers and, where relevant, those charged with governance.

Exhibit 1: Summary of main audit risks and proposed responses

Risks	Action proposed
Control environment risks	
<ul style="list-style-type: none"> The Council is a complex environment and has to understand and manage the operational, corporate and financial risks that it faces Budget settlements remain under pressure and there is a continued need to make substantial savings in each budget round. 	<ul style="list-style-type: none"> We will review the arrangements in place to manage risk and to control budgets. We will consider the accounting impact of any cost-saving decisions and also carefully examine estimates prepared for inclusion in the accounts
<ul style="list-style-type: none"> The annual Governance Statement outlines ways in which Bridgend has responded to the challenges that it faces 	<ul style="list-style-type: none"> We read the Governance Statement and ensure that it agrees with our understanding of the arrangements in place at the Council.
<ul style="list-style-type: none"> The introduction of the Carbon Reduction Commitment ("CRC") could mean that some councils incur penalties 	<p>We will look at how the council is capturing the financial implications of the CRC.</p>

Risks	Action proposed
Financial systems risks	
<ul style="list-style-type: none"> • There have historically been issues identified around accounting for fixed assets because of the complexity of this area and because the information was not prepared throughout the year. Furthermore, the transition to IFRS resulted in a number of unadjusted differences relating to fixed assets being identified in the 2010-11 audit. • The Council has purchased a new CIPFA fixed asset accounting module for use this year, and moved additional staff resource into the process. This should reduce audit risk in future years but there is an initial risk of error associated with the migration of the data onto the new system. 	<ul style="list-style-type: none"> • The audit will cover the major capital transactions in the year (significant additions, disposals, revaluations and impairments). We will also check the disclosures in the accounts. • We will review the transfer of data and the control reconciliations between the existing Excel asset register and the new CIPFA module in advance of our final audit visit.
<ul style="list-style-type: none"> • The council will outsource the management of its leisure facilities to the new external service providers HALO/GLL from 1 April 2012. Any costs incurred or assets purchased or transferred in advance may need to be accounted for as part of the implementation of the contract. 	<ul style="list-style-type: none"> • We will review the accounting treatment followed for any costs incurred or assets purchased in advance as part of the contract.
<ul style="list-style-type: none"> • Payroll costs are the one of the major areas of expenditure for the Council. In previous years' audits we have identified issues when we have attempted to obtain supporting documentation for starters and leavers (although we note that last year saw some level of improvement in this area). 	<ul style="list-style-type: none"> • We will follow up issues identified in previous years. We will gain an understanding of the work of Internal Audit in this area and aim to place reliance on this work if controls are found to be effective. • We will also test Directorate-level budgetary controls over payroll costs.
<ul style="list-style-type: none"> • We have been made aware of a potential fraud relating to a failure of controls in a specific service area. 	<ul style="list-style-type: none"> • We will test the operating effectiveness of budgetary controls to consider whether they are sufficient to identify a material misstatement in expenditure, whether due to fraud or error. • In conjunction with Internal Audit, we plan to perform specific computer-assisted audit techniques ('CAATs') in order to identify other areas where there could be increased risk of similar potential frauds.

Risks	Action proposed
Preparation of the accounts risks	
<ul style="list-style-type: none"> • Bridgend, in common with other local authorities, has to produce a set of complex IFRS-compliant financial statements to a tight and rigid timetable with limited resources. There are a small number of new accounting issues, such as heritage asset reporting, to be considered in 2011-12 for the first time. • Whole of Government Accounts have to be produced and submitted for audit alongside the main financial statements, including counterparty reconciliations for any transactions with other public sector bodies 	<ul style="list-style-type: none"> • Other than previous problems with the capital accounting (see above), the accounts production process at Bridgend has historically been timely and well organised. We do not have any specific concerns over the ability of the Council to produce IFRS-compliant financial statements or the associated returns such as Whole of Government Accounts.
Financial statements risks	
<ul style="list-style-type: none"> • The Council has historically held a provision against the cost of equal pay back pay claims. • There is also an ongoing job evaluation project which may trigger the need to recognise a liability as it nears completion. • The Council has made progress with both areas during 2011-12, and may have removed many areas of uncertainty by the time of the final audit. 	<ul style="list-style-type: none"> • The audit will review the council's assumptions and supporting evidence that underpin provisions at 31 March 2012. • We will review the status of the job evaluation project and consider completeness of liabilities identified.
<ul style="list-style-type: none"> • The Council has a significant fixed asset holding which was revalued in 2009-10, and there were programmes during 2010-11 to rationalise the property base. With declining asset values under the present economic conditions, assets may become impaired. Assets identified and held for sale need to be accounted for differently under IFRS. 	<ul style="list-style-type: none"> • We will review the Council's process for identifying assets which may require impairment and consider whether these impairments have been accounted for correctly within the financial statements.

Use of resources

16. To discharge my responsibilities regarding the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources, I shall place reliance upon:

- the results of the audit work undertaken on the financial statements;
- the audited body's system of internal control, as reported in its governance statement and my report thereon;
- the results of work carried out by the Auditor General, including work carried out under the Local Government (Wales) Measure 2009, certification of claims and returns and data matching exercises;
- the results of the work of other external review bodies where relevant to our responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

Reporting

17. The Code of Audit Practice issued by the Auditor General requires Appointed Auditors to comply with relevant auditing and ethical standards, which require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - certain matters to those charged with governance (as distinct from management) before they give an opinion on the financial statements.
19. [Appendix 1](#) highlights the key elements of the audit engagement at the Council and confirms that there are no known threats to the independence of the Appointed Auditor or other audit staff.
20. This document provides information regarding the planning of the audit.
21. I will submit reports to the Audit Committee and where necessary to the Cabinet/Council in a timely manner, prior to the completion of audit.
22. I will provide reports, or other output as agreed. The key milestones are set out in [Exhibit 2](#).

Exhibit 2: Key milestones

Planned output	Planned start date	Report finalised
Audit of Financial Statements (ISA260) Report	Summer 2012	By 30 September 2012
Audit Opinion on the 2011-12 financial statements	Summer 2012	By 30 September 2012
Annual Audit Letter	Autumn 2012	By 30 November 2012

Audit fee

23. Our fee is calculated with reference to a number of factors including your income and our assessment of audit risk and control environment, in line with the Auditor General's fees letter and based on the zero-based fee model for financial audit.
24. The planned financial audit fee was maintained at £210,000 in 2010-11. There were, however, additional costs of £6,600 billed in relation to issues in the audit of capital accounting, as there was a lack of audit trail around transactions processed.
25. The fee in 2011-12 will be on the basis of no audit issues in this area and increased audit efficiency due to the introduction of a new dedicated capital accounting system, additional Finance team resource and improved processes and controls (see Exhibit 1, page 7 above). We will communicate our 2011-12 fees to the Assistant Chief Executive - Performance in writing as soon as we are able to do so following internal moderation.
26. Also as detailed in the risks on page 7, we will also perform some specific computer-assisted audit techniques ('CAATs') in response to fraud risks in the Council. As this is a one-off piece of work, we will bill this separately. Your Internal Audit team have been closely involved in planning this work, and will carry out most of the follow up testing, as a way of minimising cost to the Council.
27. In previous years, there have been few formal objections to the Council's financial statements. However, I do receive a number of queries and items of correspondence from members of the public and other interested parties. A small amount of time has been included within the fee to deal with minor queries, as part of the overall management of the audit.
28. Any detailed investigations or other work required to respond to queries and objections will result in an additional fee. Any such additional fee will be charged at daily rates based on the specific grade or skill mix required for the work, but will be discussed with the Council, prior to undertaking the work.
29. 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. Grant and return certification work is charged on a daily basis in line with the skill-related fee scales set out in the Auditor General's local government fees letter. The fees will reflect the size, complexity and particular issues relating to the specific grants.
30. Although grant work fluctuates from year to year, based on past experience and initial indications of changes in grant schemes and conditions, I estimate that the total fee for grant work will be in the range between £80,000 and £90,000.

Appendix 1

Key elements of the audit engagement

Key elements	Requirements	Position at the Council
Engagement activities		
Terms of the audit engagement	The Public Audit (Wales) Act 2004 sets out responsibility for appointment of local government external auditors in Wales.	Roles and responsibilities of Appointed Auditors are outlined above and in Appendix 1 . The full statement of responsibilities can be found at: http://www.wao.gov.uk/assets/english_documents/statement_of_responsibilities_of_auditors_eng.pdf
Appointment of auditors and engagement leads	It is the Auditor General's responsibility to appoint local government external auditors and to assign responsibility for each engagement to an engagement lead.	Details of the Appointed Auditor and the Engagement Lead are provided in Appendix 2 of this document.
'Non-statutory' work	The Auditor General has set out clear criteria for approval of any 'non-statutory' work requested by audited bodies.	No 'non-statutory' work has been requested or is proposed.
Limitations on audit work	I am required to advise you of any limitations on the work that I propose to undertake, including limitations imposed by management.	No limitations have been placed on the work that I propose to undertake.
Ethical considerations		
Independence	Appointed Auditors are required to consider the following: <ul style="list-style-type: none"> • threats to auditor independence (including litigation); • family and other personal relationships; • long association with the audited body, based on the Wales Audit Office rotation of audits policy; and • contentious or difficult issues. 	I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy.

Key elements	Requirements	Position at the Council
Ethical considerations (continued)		
Engagement performance	Engagement leads need to consider what level of quality assurance and review levels are appropriate.	Wales Audit Office quality control review mechanisms are in place for all audits, and the Engagement Lead has established appropriate review levels based on the experience of the staff undertaking the audit work.

Appendix 2

Financial audit team

Name	Role	Contact number	E-mail address
Anthony Barrett	Appointed Auditor	02920 320500	anthony.barrett@wao.gov.uk
Ian Pennington	Financial Audit Engagement Lead	02920 468 087	ian.pennington@kpmg.co.uk
Matthew Arthur	Audit Manager	02920 468 006	matthew.arthur@kpmg.co.uk
Georgianna Rustell	Financial Audit Team Leader	02920 468 078	georgianna.rustell@kpmg.co.uk



WALES AUDIT OFFICE

SWYDDFA ARCHWILIO CYMRU

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Tel: 029 2032 0500

Ffôn: 029 2032 0500

Fax: 029 2032 0600

Ffacs: 029 2032 0600

Textphone: 029 2032 0660

Ffôn Testun: 029 2032 0660

E-mail: info@wao.gov.uk

E-bost: info@wao.gov.uk

Website: www.wao.gov.uk

Gwefan: www.wao.gov.uk