



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

Annual Financial Audit Outline

Bridgend County Borough Council

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Status of document

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

Contents

Annual Financial Audit Outline

Roles and responsibilities	4
----------------------------	---

The audit approach	5
--------------------	---

Reporting	8
-----------	---

Audit fee	9
-----------	---

Appendices

Key elements of the audit engagement	10
--------------------------------------	----

Financial audit team	11
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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 2012-13 financial statements.
2. Under the provisions of the Public Audit (Wales) Act 2004, the 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. In accordance with professional standards that apply by virtue of the Code of Audit Practice set under the act, this involves giving an opinion on whether the accounts give a true and fair view of the Council's financial position and of its income and expenditure for the year. The act also requires me to satisfy myself of these things:
 - that the accounts are prepared in accordance with regulations under section 39 of the act (the Accounts and Audit (Wales) Regulations 2005);
 - that the accounts comply with the requirements of all other statutory provisions applicable to them;
 - that proper practices have been observed in the compilation of the accounts; and
 - that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
4. I am also required to 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:
 - establish systems of internal control 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 and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts.
7. The key elements of the audit 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 (Wales) Measure 2009.

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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. I understand that 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 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. Therefore 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 affect my audit. These are the main risks that I have identified during the initial audit planning process, based upon information currently available, and the actions proposed to address them. I may need to change the audit plan if any new risks emerge. I will not make any changes to the audit plan 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 operates within 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 significant 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 will read the Governance Statement and ensure that it agrees with our understanding of the arrangements in place at the Council.
Financial systems risks	
<ul style="list-style-type: none"> The Council purchased a new CIPFA fixed asset accounting module for use in 2011-12, and moved additional staff resource into the process. This has reduced audit risk. During the 2011-12 audit it was identified that certain complex sale and purchase transactions could not be fully captured in the fixed asset module, increasing the risk of differences identified for the financial statements. 	<ul style="list-style-type: none"> We will review the accounting for significant sales, purchases and revaluations of fixed assets.

Risks	Action proposed
<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 there has been a level of improvement in this area in the last few years). 	<ul style="list-style-type: none"> Our main focus in this area is on the Directorate-level budgetary controls over payroll costs which we will test for operating effectiveness. We will also perform substantive testing where relevant. On top of this, 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.

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. 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"> 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. We will audit the Council's consolidation schedules in accordance with Treasury guidelines.
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Financial statements risks

<ul style="list-style-type: none"> Risk of material misstatements in the financial statements. 	<ul style="list-style-type: none"> Final accounts testing based on risk assessment work undertaken during the year and review of the draft financial statements.
<ul style="list-style-type: none"> The Council outsourced the management of its leisure facilities to the new external service providers Halo/GLL from 1 April 2012. 	<ul style="list-style-type: none"> We will review the accounting treatment followed for any costs incurred as part of the contract.
<ul style="list-style-type: none"> The Council has historically held a provision against the cost of equal pay back pay claims. Although the Council had nearly finalised the process during 2011-12, the recent Birmingham case has required the equal pay provision to be revisited. There is also an ongoing job evaluation project which will trigger the need to recognise a liability upon completion of the project. 	<ul style="list-style-type: none"> The audit will review the Council's assumptions and supporting evidence that underpin the provision at 31 March 2013. We will review the status of the job evaluation project and consider the completeness of liabilities identified.

Risks	Action proposed
<ul style="list-style-type: none"> The Council has a significant fixed asset holding which was last revalued in 2009-10, and there were programmes during 2010-11 and 2011-12 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 established 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 Council's system of internal control, as reported in the Annual 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 my 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. These standards require formal reporting at various stages during the audit to those charged with governance.
18. In particular, auditors must report:
- relationships that may affect 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 I confirm that there are no known threats to my independence as Appointed Auditor or on the independence of staff or contractors working for me.
20. This document provides information regarding the planning of the audit.

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21. I will submit reports to the Audit Committee, and where necessary, to the Cabinet/Council in a timely manner.
 22. I will provide other reports or 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 (ISA 260) Report	Summer 2013	By 30 September 2013
Audit Opinion on the 2012-13 Financial Statements	Summer 2013	By 30 September 2013
Annual Audit Letter	Autumn 2013	By 30 November 2013

Audit fee

23. We will communicate our 2012-13 fees to the Assistant Chief Executive - Performance in writing as soon as we are able to do so following internal moderation by the Wales Audit Office. The proposed fee for 2012-13 financial audit work will be charged in equal instalments between November 2012 and October 2013. This fee is in line with the Auditor General's fees letter and is based on the zero-based fee model for financial audit. We have recently received a ruling from HMRC regarding changes in the VAT status of the Auditor General which will take effect from 1 April 2013. We are currently liaising with HMRC regarding the precise scope of this ruling and will shortly be writing to you separately to explain the implications of this ruling.
24. The planned financial audit fee in 2011-12 was £190,000.
25. 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.
26. 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.
27. 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.
28. Although grant certification 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 of £75,000 to £85,000.

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 this appendix. 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.
Discretionary work by agreement	The Auditor General has set out clear criteria for approval of any discretionary work requested by audited bodies.	No discretionary agreement work has been requested or is proposed at the date of this document.
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 (see Wales Audit Office rotation of audits policy); and • contentious or difficult issues. 	I can confirm that there are no known threats to my independence as the Appointed Auditor or to the independence of staff or contractors working for me, and I have complied with the Wales Audit Office rotation policy.
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 the audit, 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	029 2032 0500/ 012 4452 5970	Anthony.barrett@wao.gov.uk
Darren Gilbert (KPMG LLP)	Financial Audit Engagement Lead	029 2046 8205	darren.gilbert@kpmg.co.uk
Matthew Arthur (KPMG LLP)	Audit Manager	02920 468 006	matthew.arthur@kpmg.co.uk
Georgianna Rustell (KPMG LLP)	Financial Audit Team Leader	02920 468 078	georgianna.rustell@kpmg.co.uk



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