

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Bridgend County Borough Council

Audit year: 2015-16

Issued: September 2016

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Status of report

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Bridgend County Borough Council (the Council) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for the Council's accounts is £4.4 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity, for example the remuneration report.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Council for 2015-16, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 16 June 2016, and have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with officers.

Proposed audit report

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. There are a number of misstatements, some of which are material, that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process,. They are set out with explanations in [Appendix 3](#).

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:
- **We have no major concerns about the qualitative aspects of your accounting practices and financial reporting but we did identify a number of balances within creditors and debtors that had to be reclassified.**
We found the information provided in the main to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. However, sample testing of debtors and creditors identified a number balances that had been incorrectly classified or incorrectly netted up or down. We requested officers undertake a detailed analysis of creditor and debtors balances to identify and correct any further instances of misclassification etc. This additional work resulted in £3.7 million, mainly historic balances, being transferred to reserves, creditors reducing by £3.8 million and debtors decreasing by £126,000. Based on this additional work we were able to gain assurance that restated balances were materially correct.
 - **We did not encounter any significant difficulties during the audit.** Our audit approach differed to that of our predecessors, which caused some initial confusion over what our expectations were for supporting working papers etc. Officers were very helpful and supplied us with all the information we requested, although there were occasional delays, which is to be expected when information is being collated for the first time. We were not restricted in our work in any way. Going forward we will work closely with officers to agree what information is required earlier to streamline the closure process.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
 - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
 - **We did not identify any material weaknesses in your internal controls.**
 - **There are no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

13. As part of the finalisation process, we are required to provide you with representations concerning our independence.
14. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Auditor General, Wales Audit Office and the Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

(Audited body's letterhead)

Huw Vaughan Thomas
24 Cathedral Road
Cardiff
CF11 9LJ
[Date]

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Bridgend County Borough Council (the Council) for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA Code of Practice on Local Authority Accounting in the UK 2015-16; in particular the financial statements give a true and fair view in accordance therewith.
- the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

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- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - Our knowledge of fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
 - The identity of all related parties and all the related party relationships and transactions of which we are aware;
 - Our knowledge of all known partnerships and joint working/ collaborative arrangements that would impact on the financial statements.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The Council has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Council has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The reserves of the Council have been reviewed and are properly treated within the final accounts in accordance with the CIPFA guidance.

The provisions of the Council have been reviewed and have been properly treated within the final accounts in accordance with IAS 37.

The Council has accounted for and disclosed its partnership and joint/collaborative working arrangements in accordance with accounting standards and the CIPFA Code.

The agreed recommendations set out in the 2014-15 KPMG financial accounts reports have been satisfactorily implemented.

The financial statements are free of material misstatements, including omissions.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Bridgend County Borough Council Audit Committee on [insert date].

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

Appendix 2

Proposed audit report of the Auditor General to the Members of the Audit Committee

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Bridgend County Borough Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page x, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Bridgend County Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Bridgend County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2016 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns;
or
- I have not received all the information and explanations I require for my audit;
- the Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I 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 Auditor General for Wales' Code of Audit Practice.

For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff CF11 9LJ
30 September 2016

Summary of corrections made to the draft financial statements which should be drawn to the attention of members of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

	Value of correction	Nature of correction	Reason for correction
1a	£3,338,000	Decrease in Short-Term Creditors balance and Decrease in the Net Cost of Service expenditure in the Comprehensive Income and Expenditure Account for 2015-16. This also impacts on the Cash Flow and supporting notes and note 8 grants income	A number of, mainly historic, balances within Short-Term Creditors were identified as either being amounts set aside for future use or no longer required, rather than true creditors. These balances have been released to the Comprehensive Income and Expenditure account and then set aside as Earmarked Reserves.
1b	£3,742,000	Decrease in the Council Fund balance and increase in Earmarked Reserves balance at 31 March 2016 within the Movement in Reserves Statement (MiRS). This also results in amendments to Note 31b 'Revenue reserves'.	Adjustment required to set aside amounts as Earmarked Reserves currently included within Short-Term Creditors (issue 1 above).
1c	£529,000	Decrease in both Short-Term Debtors and Short Term Creditors balances at 31 March 2016. This also impacts on the Cash Flow and supporting notes.	Reclassification of balances to net down balances incorrectly classified within Short Term Debtors and Short Term Creditors.
1d	£403,000	Increase in Short-Term Debtors balance at 31 March 2016.	Incorrect calculation of the bad debt provision on outstanding Council Tax Debtors.

	Value of correction	Nature of correction	Reason for correction
2	£691,000	Reclassification of £691,000 within Short-Term Debtors from 'Other Local Authorities' to 'Central Government Bodies'. The adjustment has no overall impact on the total Short-Term Debtor balance it is a misclassification issue not a misstatement of the balance.	Incorrect classification within Short Term Debtors of an amount due from the Welsh Government.
3	£2,098,000	Reclassifications within Short-Term Creditors: <ul style="list-style-type: none"> • Central Government – decrease £552,000 • Other Local Authorities – increase £2,098,000 • Other entities – decrease £1,546,000 The above entries have no overall impact on the Short-Term Creditors total. This is a misclassification issue not a misstatement of the balance.	Incorrect classification within Short-Term Creditors.
4	£6,051,000	<ul style="list-style-type: none"> • Decrease in the Deficit on Provision of Services within the Comprehensive Income and Expenditure Account • Decrease in MiRS and Note 4 (revaluation losses on Property, Plant and Equipment) • Increase in the Capital Adjustment Account balance at 31 March 16 • Decrease in Revaluation Reserve balance at 31 March 16 This has no impact on the council fund balance or net assets figure.	A net downward revaluation of £2,402,000 on an individual asset had been incorrectly treated as an upward revaluation of £6,051,000 and a separate downward revaluation of £8,453,000. Adjustments were required to reflect only the net revaluation movement.
5	£8,867,000	Decrease in capital commitments disclosed within Note 22a.	To remove an item included in capital commitments where no commitment for the expenditure existed at 31 March 2016.

	Value of correction	Nature of correction	Reason for correction
6	£1,143,000 £38,000	<p>Reclassification of amounts within Tangible Fixed Assets note 22b:</p> <ul style="list-style-type: none"> • £1,143,000 reclassification with 'Cost or Valuation' section from 'Accumulated Depreciation and Impairment written out to GCA' to 'Other movements in cost and valuation' • -£1,143,000 reclassification within 'Accumulated Depreciation and Impairments' section from 'Accumulated Depreciation and Impairment written out to the surplus/deficit on the provision of services' to 'Other Movements' • A further adjustment of £38,000 between 'Other Movements in Cost and Valuation' and 'Other movements' to agree the closing asset values to the fixed asset register <p>The above adjustments had no impact on the closing value of Tangible Fixed Assets at 31 March 2016. These are misclassification issues not misstatements of the balances.</p>	To correct the misclassification of Fixed Asset Movements and agree closing Fixed Asset balances to the fixed asset register.
7	£915,000	<p>Amendments were required to the following balances and transactions:</p> <ul style="list-style-type: none"> • Property, Plant and Equipment within the Balance Sheet (Other Land and Buildings) – decreased by £685,000 • Property, Plant and Equipment within the Balance Sheet (Infrastructure) – decreased by £230,000 • Net Cost of Services expenditure (Comprehensive Income and Expenditure Account) – increased by £915,000 • Increase in MiRS of £915,000 This has no impact on the council fund balance. 	To write out non-enhancing capital expenditure which had not been removed from the fixed asset register at 31 March 2016.

	Value of correction	Nature of correction	Reason for correction
8	£1,194,000	<p>Increase in Note 22g 'capital grants received in advance' to reflect the correct figure of £1,844,000.</p> <p>This has no impact on the council fund balance or net assets figure.</p>	To agree the figure disclosed for capital grants received in advance per Note 22g to the amount per the balance sheet and supporting working papers.
9	£14,780,000	<p>Decrease in gross expenditure and gross income within the 'Net Cost of Service' section of the Comprehensive Income and Expenditure Account.</p> <p>This has no impact on the bottom line of the Comprehensive Income and Expenditure Account.</p> <p>Adjustments are also made to 2014-15 comparative figures for consistency of disclosure.</p>	To correctly net down internal transactions shown gross within the Comprehensive Income and Expenditure Account.
10	£663,000	<p>Decrease in the following balances and transactions:</p> <ul style="list-style-type: none"> • Comprehensive Income and Expenditure Account – Net Cost of Service (across all lines) • Movement in Reserves Statement – line for 'Adjustments between accounting basis and funding basis under regulations (Note 4) • Balance Sheet – Short Term Creditors • Balance Sheet – Short-Term accumulating Compensated Absences <p>Adjustments also made to the notes supporting the above primary financial statements (Notes 4, 28 and 32e).</p> <p>This has no impact on the council fund balance or net assets figure.</p>	Formula error identified in the spreadsheet calculation of accumulated absences.

	Value of correction	Nature of correction	Reason for correction
11	£2,497,000	<p>Decrease in 'Specific Grants credited to Services' per Note 8 to agree the balance with that disclosed for Government Grants per Note 21. Amendments were needed to the following lines to correct the overall total:</p> <ul style="list-style-type: none"> • Foundation Phase Grant – increased to £5,213,000 • Other Children's grants increased to £5,387,000 • Other Wellbeing grants decreased to £811,000 • Other grants decreased to £2,570,000 • Additional line included for Sports play and active Wellbeing £401,000 	To ensure that grant income disclosed within Note 8 agrees with that included in Note 21.
12	Various adjustments to Note 21	Amendments made to ensure the correct classification of amounts within the 'Reconciliation to Subjective Analysis' section of Note 21. Adjustments are also made to 2014-15 comparative figures for consistency of disclosure.	To ensure that amounts disclosed within Note 21 are accurately classified.

	Value of correction	Nature of correction	Reason for correction
13	Various amendments to the Cash Flow Statement and supporting notes	<p>A number of figures included within the Cash Flow Statement and supporting notes required amendment to ensure movements agreed with other entries in the accounts. The adjustments made resulted in the following movements:</p> <ul style="list-style-type: none"> • Note 39 'Adjustments for Non-Cash Movements' total decreased by £11,546,000 • Note 40 'Operating Activities' total decreased by £7,587,000 • Note 41 'Investing Activities' total increased by £5,000 • Note 42 'Financing Activities' total increased by £7,582,000 <p>The above adjustments net to £nil and therefore there is no overall impact on the bottom line of the Cash Flow Statement.</p> <p>Adjustments have also been made to the 2014-15 comparative cash Flow and supporting notes for the same reasons as the adjustments above.</p> <p>A disclosure note has also been included to explain the nature of the 2014-15 adjustments.</p>	To ensure the accurate disclosure of cash flows within the Cash Flow Statement and supporting notes.
14	Various Joint Operation disclosures in Note 18	<p>The following Joint Operations have been added to Note 18:</p> <ul style="list-style-type: none"> • Capita Glamorgan Consultancy Ltd • Coychurch Crematorium • Margam Crematorium • Catalogue Supplies Service • Integrated Family Support Service • Shared Regulatory Service • Joint vehicle maintenance service 	To ensure completeness of Joint Operations disclosed.
15	Various Related Parties disclosures in Note 20	<p>Additional disclosure for:</p> <ul style="list-style-type: none"> • Senior officer who is a Director of Capita Glamorgan Consultancy 	To ensure completeness of disclosures within Note 20.

	Value of correction	Nature of correction	Reason for correction
16	£1,118,000	Note 29: Decrease in Provisions disclosed as Long Term Liabilities and Increase in Provisions disclosed as Current Liabilities. This has no impact on the council fund balance or net assets figure.	To correctly disclose provisions expected to be paid within one year as Current Liabilities.
17	£48,000	Note 11: Decrease in the amount disclosed for 'Council as Lessor – operating leases more than one year'.	To agree the amount disclosed to supporting lease schedule.
18	£2,011,000,000	Note 36: Decrease of £2,011,000,000 in the column for 'Fair Value of Scheme Assets 2015-16' in the table for 'Local Government Pension Scheme Assets'.	The Fair Value of Scheme assets had been incorrectly included at the total value of Scheme assets for the Pension fund and not just the element relating to Bridgend.
19	£30,000	Note 36: Decrease in the figure disclosed for 'Interest Income on Assets' from £14,060,000 to £14,030,000.	To ensure figures disclosed agree with the Actuary calculations.
20	£8,000	Note 12: PFI disclosure note Amendment of the value against the line for 'Service Charge Element 2032-33 to 2033-34' to £997,000. This is a disclosure amendment only and has no impact on the PFI figures included in the Balance Sheet.	To ensure that the amounts disclosed in Note 12 are accurate.
21	£425	Note 15: Decrease in the 2014-15 median salary disclosed within Note 15 – remuneration ratio.	To correct an error identified in the calculation of the median salary.

	Value of correction	Nature of correction	Reason for correction
22	Various	<p>Amendments made to Note 15 as follows:</p> <ul style="list-style-type: none"> • Disclosure 2 – Column for ‘2015-16 excluding Redundancy Costs’ – banding of £65,000 to £69,999 increased from 14 to 15 and total increased from 56 to 57 • Disclosure 2 – Column for ‘Number of Teachers including in Figures excluding Redundancy’ – banding of £65,000 to £69,999 increased from 14 to 15 and total increased from 40 to 41 • Disclosure 4 – various changes throughout the disclosure to amend the number and value of exit packages within each banding 	To ensure that disclosures within Note 15 accurately reflect supporting working papers.
23	Various	A number of amendments to narratives and notes to the financial statements have been made to correct transposition errors, cross referencing etc.	To ensure that notes are accurate and cross reference within the body of the financial statements.

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