

Archwilydd Cyffredinol Cymru
Auditor General for Wales



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Bridgend County Borough Council

Audit year: 2013-14

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Status of report

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This audit was delivered by KPMG LLP on behalf of the Appointed Auditor. The audit team comprised Darren Gilbert (Director), Matthew Arthur (Manager) and Sian Redwood (Assistant Manager).

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Anthony Barrett, as Appointed Auditor, 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. Anthony Barrett, as Appointed Auditor, 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 at 31 March 2014 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 Bridgend County Borough Council is £4.5m. 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.
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 Bridgend County Borough Council, for 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 12 June 2014, 18 days prior to the deadline of 30 June 2014, and we 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 the Interim Director of Resources and the Chief Accountant.

Proposed audit report

8. It is the Appointed Auditor'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](#).

Appendix 1

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 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. 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 no issues arising in these areas this year:
 - **We have no concerns about the qualitative aspects of your accounting practices and financial reporting although we have identified the need to review the approach to the valuation of the Council's property portfolio.** Generally, we found the information provided 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, there is a need to consider the frequency of the Council's valuation of its property portfolio to ensure that the processes followed ensure, and can demonstrate, that the carrying value of assets is not materially different to fair value (see recommendation in [Appendix 4](#) for further detail).
 - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
 - **There were no significant matters discussed and corresponded upon with management which we need to report to you.** Key financial statement audit risks identified in the audit strategy, presented to Audit Committee by KPMG on 10 April 2014 and our related findings, are shown in the table below.

Key financial statement audit risk	Findings
Management override of controls	<ul style="list-style-type: none">• We used a risk based approach to select journals made throughout the year and tested these back to supporting documentation.

Appendix 1

Key financial statement audit risk	Findings
	<ul style="list-style-type: none">• We reviewed accounting estimates including provisions and depreciation to assess if there were any management biases.• We did not identify any significant transactions which were outside of the normal course of business.
Triennial valuation of the Local Government Pension Scheme for Rhondda Cynon Taf CBC, of which Bridgend CBC is a member	<ul style="list-style-type: none">• We have reviewed the information provided by the pension scheme actuary and confirmed that the Statement of Accounts appropriately reflected this information.• We reviewed the data provided by the Council to the actuary to confirm its accuracy.• We liaised with the Appointed Auditor for the pension scheme to gain assurance over the data and process undertaken by the scheme on the Council's behalf• We concluded that the pension liability was fairly stated at the year-end with no adjustments proposed to the balance.
Accounting and reporting changes	<ul style="list-style-type: none">• We reviewed the amendments made to the presentation of Other Comprehensive Income on the Comprehensive Income and Expenditure Statement to assess if they were in line <i>with IAS 1 Presentation of Financial Statements</i>.• We reviewed the recognition and disclosure of adjustments to pension postings in line with <i>IAS19 Employee Benefits</i> and the related aspects of the Code.• We suggested some minor presentation amendments in both areas which have been made in the final version of the accounts.

- **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 control.** We report any significant control deficiencies where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment, in [Appendix 4](#). Several non-material weaknesses and potential areas for improvement regarding internal controls have been identified here.
- **There are not any 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 Wales Audit Office or KPMG LLP and Bridgend County Borough Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

KPMG LLP
3 Assembly Square
Britannia Quay
Cardiff Bay
CF10 4AX

25 September 2014

Representations regarding the 2013-14 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Bridgend County Borough Council for the year ended 31 March 2014 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 the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for 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
 - 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 Bridgend County Borough 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.

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 financial statements are free of material misstatements, including omissions. There have been no uncorrected misstatements identified during the audit.

The carrying amounts of property, plant and equipment assets carried at revalued amounts do not differ materially from those which would be determined using the fair value at the end of the reporting period.

Representations by the Audit Committee

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 Bridgend County Borough Council on 25 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Officer who signs on behalf of management

Date:

Signed by:

Chair of Audit Committee

Date:

Appendix 2

Proposed audit report of the Appointed Auditor to Bridgend County Borough Council

Independent auditor's report to the Members of Bridgend County Borough Council

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2014 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, and the related notes.

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 2013-14 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 17, 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 Auditing Practices Board'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 the 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 Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. 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 2014 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 2013-14.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared 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 Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

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 Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett
Appointed Auditor
Wales Audit Office
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Cardiff
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xx September 2014

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention 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 £000	Nature of correction	Reason for correction
DR Land & Buildings £33,342,000 CR Assets Under Construction £33,342,000	Transfer of Gateway to the Valleys School from Assets Under Construction to Land & Buildings	Although the whole project is not completed, the School has pupils and has been in use since July 2013. As such, the elements of the project which are in use have been transferred out of Assets Under Construction to reflect they are operational. Although material in value, this simply reflects a categorisation change within Property, Plant & Equipment on the Balance Sheet.
DR Land & Buildings £5,101,000 CR Revaluation Reserve £1,184,000 CR Capital Adjustment Account £3,917,000 CR I&E Service Cost £3,224,000 DR MIRS Service Capital Charges £3,224,000	Correction of erroneous revaluation of Ysgol Bryn Castell and acceleration of depreciation in line with 2015 closure plan.	This adjustment relates to the closure of the Ysgol Bryn Castell school site, which is already partially closed and due to close fully in April 2015. Within the draft accounts all buildings were impaired to nil, with all land impaired to £1m and transferred to assets held for sale. This is incorrect as only 4.4 of 13 acres of land was actually available for sale in the year, with the remainder of the land and buildings being in use until April 2015. Correction proposed is the net impact of: 1. Re-instating the element of land and the buildings still in use to Land & Buildings, reversing both an impairment charge and a revaluation reserve charge. 2. Accelerating the depreciation of the buildings still in use to reduce their net book value to nil by the time of closure in April 2015.

There are also a small number of minor presentational and disclosure amendments which have been incorporated into the final version of the accounts.

Appendix 4

Internal Control Weaknesses and Recommendations

We report any significant control deficiencies where you are not already aware of them or where they may be symptomatic of broader weaknesses in the overall control environment. We have not identified any significant control deficiencies during the 2013/14 audit.

During our audit we identified the following internal control deficiency that was not deemed material, but we consider should be drawn to your attention as follows:

Observation	Recommendation	Management Response
<p>Valuation of Capital</p> <p>During the year, CIPFA issued a clarification to the Code around the need to ensure capital assets are not materially misstated at each year-end date.</p> <p>This means that all Councils need to reconsider if their processes for revaluing their property, plant and equipment are sufficient to allow the Council to conclude on the material accuracy of its value at year-end.</p> <p>The Council's current approach is to revalue all of its property portfolio once every five years as a single exercise (other than investment properties and assets held for sale which are revalued annually). This means that for the four years within this cycle where no revaluation takes place, there is a risk that a material difference between carrying value and fair value might occur.</p> <p>At 31 March 2014, the assets had not been revalued since 1 April 2009, and the Council had difficulties in demonstrating that the carrying amount did not differ materially from that which would be determined using the fair value at the end of the reporting period.</p> <p>While we eventually reached a conclusion that the balances were not materially misstated in the context of movements in construction costs and the overall impact on the reader, there is risk that this may not be the case in future years.</p>	<p>Consider how best to gain assurance that property valuations are not materially misstated on an annual basis. This could include:</p> <ul style="list-style-type: none"> • Performing an annual valuation on 20% of property, to ensure any changes in valuation are highlighted and can be applied elsewhere if required; • Revaluing assets with high carrying amounts more regularly than five years; or • Identifying an appropriate indices or set of indices against which to benchmark the value of property annually and assess whether a formal valuation of certain assets are required. 	<p>The Council will be revaluing its full property portfolio during 2014-15 so that all assets will have a new valuation as at 1 April 2014.</p> <p>A working group of both finance and property staff will be established to review the way property, plant and equipment will be revalued going forward to ensure that capital assets are not materially misstated at the end of each financial year. This will complement the existing practices of annual impairment and enhancement reviews and annual revaluation of investment assets.</p>

Observation	Recommendation	Management Response
<p>Bank Reconciliation</p> <p>During the year, the Council was advised to maintain reduced balances with the Co-op bank, and as a result implemented a sweep to minimise the number of accounts with credit balances. School bank accounts were also swept, and there was a lack of consistency within the school bank reconciliations, which were prepared using a mixture of pre- and post-sweep balances. These two factors made it more difficult to audit the year end bank reconciliation.</p> <p>In addition, the bank reconciliation includes opening balances, transactions in the year and closing balances, making it complicated to follow from an audit perspective.</p>	<p>Banking arrangements are in the process of being changed, and a sweep may not be required by the 2014/15 audit.</p> <p>If a sweep is still required, the Council should ensure that all schools perform their reconciliations consistently, and appropriately document the impact of the sweep on the ledger.</p> <p>In addition, the bank reconciliation for audit could be simplified by including only the year-end balance, and excluding the opening balance and in year transactions.</p>	<p>A new banking contract will be in place by the 1 January 2015 so the sweeping of bank accounts will not be an issue for the 2014-15 audit of the accounts.</p> <p>The bank reconciliation and associated working papers for 2014-15 will exclude the opening balance and in-year transactions.</p>
<p>Remuneration Note: Banding and Senior Officers' pay</p> <p>Several errors were noted when reviewing the banding disclosure and the Senior Officers' remuneration tables in the Notes to the Accounts.</p> <p>Whilst these have been corrected, they occurred because the note is not taken directly from a report but manually typed up from several sources, meaning transcription and transposition errors can occur.</p>	<p>Develop a less manual way to compile the disclosures to reduce the risk of error in the future.</p> <p>If a less manual way is not possible, implement a review process to ensure the notes are checked for accuracy prior to inclusion in the Statement of Accounts.</p>	<p>Agreed. The compilation of these disclosures notes will be reviewed and a system generated report will be examined.</p>

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