



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Bridgend County Borough Council**

Audit year: 2018-19

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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 2019 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 are £4.3 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements, or areas of the financial statements that we consider to be of particular interest to the reader that we therefore judge to be sensitive. Examples of such areas are the remuneration report and related party disclosures, which we consider to be material by nature and hence set lower levels of materiality.
- 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. To meet this requirement this report sets out for your consideration the matters arising from the audit of the Council's 2018-19 financial statements.

Status of the audit

- 5 The Section 151 Officer signed the draft 2018-19 financial statements on 28 May 2019 and provided them to us on 29 May. We therefore received them some two and a half weeks ahead of the statutory deadline of 15 June (see [Exhibit 1](#)).
- 6 We have now substantially completed the audit work. 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 relevant officers.

Proposed audit report

- 7 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](#). The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

- 8 The Council's Finance Team has corrected all non-trivial misstatements identified in the draft financial statements. Therefore, there are no uncorrected non-trivial misstatements to report.

Corrected misstatements

- 9 The more important misstatements that were corrected are set out with brief explanations in [Appendix 3](#). We consider that these reported corrections should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Other significant issues arising from the audit

- 10 During the audit we consider a number of matters both qualitative and quantitative relating to the financial statements and we report any significant issues to you. We comment below on significant matters that arose, and also on aspects of our audit that we are required to report to you.

[The Council has generally sound accounting and financial reporting practices.](#)

- 11 We found the overall quality of the draft financial statements presented for audit to be good. Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that the accounting policies, and the accounting estimates, are appropriate and financial statement disclosures unbiased, fair and clear.

We did not encounter any significant difficulties during the audit.

- 12 We are grateful for the help and assistance provided to us by Council staff throughout the audit process. We generally received information in a timely and helpful manner and were not restricted in our work.

We have engaged with management on two significant matters

- 13 The first significant matter relates to the impact of recent judicial decisions on post-employment pension benefits (commonly referred to as the McCloud judgement). In December 2018 the Court of Appeal ruled against the UK Government, holding that changes made to certain pension schemes were discriminatory. On 27 June 2019 the Supreme Court denied the Government's application for leave to appeal the decision. These judicial decisions are expected to affect the pension schemes of many public bodies across the UK. They do affect the RCT pension scheme, in which the Council is an admitted member. In July the Council sought (via RCT) an actuarial assessment of the impact on its pension liability. The actuary's assessment reported that the Council's pension liability had increased by £8.24 million, which the Council has adjusted for within the audited financial statements (see [Appendix 3](#)).
- 14 We examined four exit-package payments. For one of the payments we found the Council's documentation of key parts of the process to be poor. We therefore undertook additional work in order to understand all the relevant facts and we sought expert advice where necessary. We have concluded that the exit payment is lawful, albeit important aspects of the process should have been documented better. We also comment on this matter within [Exhibit 3](#) at [Appendix 4](#).

There are no other matters that we need to report to you

- 15 There are no other matters to report to you. In particular:
- 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; and
 - there are no other matters specifically required by auditing standards to be communicated to those charged with governance.

The accounts and audit deadlines going forward

- 16 Under the Accounts and Audit (Wales) (Amendments) Regulations 2018¹, in the future the Council and the Auditor General are required to meet earlier statutory deadlines. Under the amended regulations the new deadlines are changing in stages, with the first change taking effect for the 2018-19 financial year and the

¹ <http://www.legislation.gov.uk/wsi/2018/91/contents/made>

final change taking effect from 2020-21. [Exhibit 1](#) summarises the statutory changes since last year's 2017-18 financial statements.

Exhibit 1: changes introduced by the amended regulations

Annual financial statements	Financial statements signed by the responsible finance officer (Section 151 Officer)	Financial statements approved by the Council and published (with the signed audit certificate or an explanation for its absence)
2017-18	30 June 2018	30 September 2018
2018-19	15 June 2019	15 September 2019
2019-20	15 June 2020	15 September 2020
2020-21 and thereafter	31 May 2021	31 July 2021

- 17 As stated at paragraph 5, the draft 2018-19 financial statements were provided to us some two and a half weeks earlier than the statutory deadline. After submitting the statements for audit, the relevant officers were present and available for our audit and they engaged with us responsively and knowledgeably. These attributes again proved crucial to our completion of the audit by the agreed timescales.
- 18 This year the Audit Committee is meeting much earlier, on 8 August 2019, to consider and approve the audited financial statements. We understand that the Section 151 Officer may seek to bring next year's (equivalent) Audit Committee forward to the last week of July 2020 which, if achieved, would be one year ahead of the 31 July 2021 statutory date set out at [Exhibit 1](#).
- 19 Over the coming months we will continue to work closely with finance officers to establish whether further improvements can be made to the preparation and audit of the annual financial statements.

Recommendations arising from our 2018-19 financial audit work

- 20 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will review management's actions during next year's audit. Where any actions are outstanding, we will continue to monitor their progress and report any relevant matters to you next year.

Update on last year's recommendations

- 21 **Appendix 5** provides an update on the Council's progress with last year's audit recommendations. For three of the four recommendations that we raised last year, we have found similar weaknesses this year.

Independence and objectivity

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

Appendix 1

Final Letter of Representation

[The Council's letterhead]

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

8 August 2019

Representations regarding the 2018-19 financial statements

This letter is provided in connection with your audit of the financial statements of Bridgend County Borough Council (the Council) for the year ended 31 March 2019 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 Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith; and
- 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 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.

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.

Representations by the Council

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 Council's Audit Committee on 8 August 2019.

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:

Section 151 Officer

Date: 8 August 2019

Signed by:

Chair of the Audit Committee

Date: 8 August 2019

Appendix 2

The independent auditor's report of the Auditor General for Wales to the Members of Bridgend County Borough Council

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Bridgend County Borough Council for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

Bridgend County Borough Council's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes, including a summary of significant accounting policies.

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 2018/19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of Bridgend County Borough Council in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Bridgend County Borough Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of Bridgend County Borough Council and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Governance Statement.

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 financial 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.

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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing Bridgend County Borough Council's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
13 August 2019

24 Cathedral Road
Cardiff
CF11 9LJ

Appendix 3

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

We consider that the following misstatements, which management have corrected, should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made to the draft financial statements

	Value of correction	Nature of correction	Reason for correction
Adjustments affecting the financial position of the Council			
1	£8,240,000	<p>Comprehensive Income and Expenditure Account</p> <p>Adjustments within the 'cost of services' section against the column for 'gross expenditure' for the following amounts:</p> <ul style="list-style-type: none"> • Education and family support increased by £3,291,000; • Social services and wellbeing increased by £2,584,000; • Communities increased by £1,161,000; and • Chief executives and finance increased by £1,204,000. <p>Balance sheet</p> <p>Net pensions liability (long-term liabilities) and pensions reserve (unusable reserves) both increased by £8,240,000.</p> <p>The adjustment also impacted on the following primary statements and notes, the value of adjustments were per the figures detailed above:</p> <ul style="list-style-type: none"> • Movement in reserves statement; • Cash flow statement; • Note 4 – expenditure and funding analysis; • Note 5 – note to the expenditure and funding analysis; • Note 6 – expenditure and income analysed by nature; 	<p>To adjust the pensions' liability and associated figures for the actuary's revised actuarial assessment of the impact of a key judicial judgement (commonly known as the McCloud case). Paragraph 13 refers to this adjustment.</p>

	Value of correction	Nature of correction	Reason for correction
		<ul style="list-style-type: none"> Note 20 – adjustments between accounting basis and funding basis under regulations; Note 29b – pensions reserve; Note 30 – pensions liabilities, IAS 19 disclosures; and Note 34 – adjustments for non-cash movements. 	
2	273,000	<p>Comprehensive Income and Expenditure Account Increase in central services gross expenditure of £273,000.</p> <p>Note 15 officers' Remuneration. Disclosure 4 table on exit packages Adjustments:</p> <ul style="list-style-type: none"> increase in the 'number of compulsory redundancies' (across all bandings) of 11; and increase in the 'total cost of exit packages in each band' (across all bandings) of £273,000. 	To correctly include redundancy payments approved during the 2018-19 financial year.
3	£1,761,000 (net nil impact)	<p>Note 21c Non-current assets (surplus assets) Note 24 Assets Held for Sale Adjustments:</p> <ul style="list-style-type: none"> surplus assets (within Note 21c and the balance sheet) increased by £1,761,000; and assets held for Sale (within Note 24 and the balance sheet) decreased by £1,761,000. 	To correctly classify non-current assets which did not meet the necessary conditions to be classified as Assets Held for Sale as at 31 March 2019.

	Value of correction	Nature of correction	Reason for correction
4	£601,000	<p>Note 21c Non-current assets</p> <p>Adjustments in the column for 'other land and buildings':</p> <ul style="list-style-type: none"> • accumulated depreciation and impairment written out to gross carrying amount (cost or valuation) decreased by £63,000; • revaluation increases/decreases recognised in the revaluation reserve (cost or valuation) decreased by £59,000; • revaluation increases/decreases recognised in the surplus/deficit on the provision of service (cost or valuation) decreased by £542,000; and • accumulated depreciation and impairment written out to gross carrying amount (accumulated depreciation and impairment) decreased by £63,000. 	To correctly include asset revaluations omitted from the draft accounts.
Adjustments identified during the interim audit and amended in the draft financial statements submitted for audit, with no further changes required			
5	£3,358,000	<p>Note 21c Non-current assets valuation</p> <p>Reduction to revaluation increases/ (decreases) within Note 21c and corresponding reductions to revaluation entries within the Revaluation Reserve and Capital Adjustment Account.</p>	<p>To correct the accounting entries in respect of the revaluation of certain non-current assets.</p> <p>Note that this error was identified as part of our interim audit and notified to officers prior to the draft accounts being prepared. The amendments were therefore made in the draft accounts submitted for audit on 29 May 2019.</p>

	Value of correction	Nature of correction	Reason for correction
6	£848,000	<p>Note 21c Non-current assets valuation</p> <p>Adjustments:</p> <ul style="list-style-type: none"> • revaluation increases/(decreases) recognised in the surplus/deficit on the Provision of Service increased by £848,000. • revaluation increases/(decreases) recognised in the Revaluation Reserve decreased by £848,000; • revaluations posted to the Cost of Services in the CIES and the Capital Adjustment Account increased by £848,000; and • revaluations posted to the Revaluation Reserve decreased by £848,000. 	<p>To correct some of the accounting classifications between those revaluation movements affecting the Comprehensive Income and Expenditure and Statement (CIES) and those affecting the Revaluation Reserve.</p> <p>We identified these errors as part of our interim audit testing, and we notified officers prior to the preparation of the draft financial statements. The amendments were therefore made in the draft financial statements submitted for audit on 29 May 2019.</p>
Adjustments to notes to the accounts not affecting the financial position of the Council			
7	£16,724,000 (net nil impact)	<p>Note 6 Expenditure and income Analysed by Nature</p> <p>Adjustments (to comparative prior year figures):</p> <ul style="list-style-type: none"> • Expenditure – Other service expenses decreased by £16,724,000; and • Income – Fees, charges and other service income decreased by £16,724,000. 	<p>To correct the net internal recharges within the comparative figures following a change in the Code accounting requirements for internal recharges.</p> <p>The change had been accounted for correctly in other parts of the financial statements.</p>
8	£98,716,925	<p>Note 9 National Non-Domestic Rates (NNDR)</p> <p>Inclusion in the disclosure of the Council's total rateable value of £98,716,925 as at 31 March 2019, and £98,259,179 as at 31 March 2018.</p>	<p>To disclose the Council's year-end rateable value as required by the Code.</p>
9	£93,903	<p>Note 15, Disclosure 3 – Table of Senior Officer's Remuneration</p> <p>Inclusion of an additional column for 'compensation of loss of office' and the inclusion within this column of the redundancy payment to the 'Corporate Director – Operational and Partnership Services' of £93,903.</p>	<p>Presentational change to distinguish the payment for loss of office from the salary payments.</p>
10	£1,232,000	<p>Note 2 Critical Judgements in Applying Accounting Policies</p> <p>Decrease in the valuation of Maesteg Comprehensive school from £24,100,000 to £22,868,000</p>	<p>To ensure the valuation disclosed agrees with that included in the Balance Sheet.</p>

Appendix 4

Recommendations arising from our 2018-19 financial audit work

Exhibit 3: Matter arising 1

Exit-package payment	
Findings	<p>We reviewed an exit-package payment (referred to in paragraph 14) provided to an officer on departure from the Council, which included an additional amount in respect of a settlement-agreement. We found the documentation in support of the payment to be weak in a number of important areas. For example, there was no formal legal advice to challenge and/or support the handling of the case and the potential decisions being considered.</p> <p>The absence of such documentation makes it more difficult for the Council to demonstrate that it has acted in accordance with the public law principle of taking into account all relevant information, though disregarding irrelevant information.</p>
Recommendation	<p>When necessary the Council's evaluation of a potential exit package should always require comprehensive written advice. An example of when such written advice should be necessary is the consideration of a significant additional payment.</p>
Accepted in full by management	<p>Partly – see below.</p>
Management response	<p>The payment was a settlement payment made in contemplation of court proceedings and was approved in accordance with the Scheme of Delegation. Senior Officers received verbal legal advice on numerous occasions from Employment lawyers within the Authority. Given the nature of litigation negotiation, this was not formalised in a written opinion. It was confirmed in e-mail correspondence and meeting notes. HR advice was similarly provided as shown in the numerous meeting notes. We will review processes to consider how documentation can be improved.</p>
Implementation date	<p>October 2019</p>

Exhibit 4: Matter arising 2

Asset componentisation	
Findings	<p>Councils need to comply with the Code of Practice on Local Authority Accounting (the Code) and follow CIPFA's LAAP Bulletin 86 guidance², which cover the componentisation of non-current assets.</p> <p>Last year we reported that the Council had not applied its componentisation policy, as required, to any of the non-current assets that had been revalued for 2017-18 (see Appendix 5). The Council's policy requires componentisation to be considered by the valuers for all assets with a value greater than £4 million.</p> <p>The Council values its non-current assets on a rolling basis and for 2018-19 it revalued all school buildings. The collective value of all schools is some £283.9 million. The Council has 23 schools with an individual value greater than the £4 million threshold. Of these schools:</p> <ul style="list-style-type: none">• seven (valued at some £94.3 million) had been componentised on an 'element' basis (where an individual structure consists of elements, such as roofs, Internals, Mechanical and Engineering);• eleven (valued at some £94.1 million) had been componentised on a 'block' basis (where many individual buildings, or blocks, make up a single asset); and• five (valued at some £33.1 million) had not been componentised. <p>Componentisation affects the level of depreciation that is charged each year. For 2018-19 we estimated that the failure to obtain the required componentised valuations for the five properties resulted in the 2018-19 depreciation charge being understated by some £393,000. Understatements will also arise in future financial years unless the properties are revalued on a component basis.</p> <p>We also identified that while the Council issues written instructions to its external valuers, no written instructions are issued by the Finance Team to the internal valuers. Clear written instructions to the internal valuers would help to ensure that the basis of valuation is appropriate for all non-current-assets being valued.</p>

² <https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-86-componentisation-of-property-plant-and-equipment>

Asset componentisation	
Recommendation	The Council should: <ul style="list-style-type: none"> • fully apply its componentisation policy to all relevant non-current assets; • formally review its componentisation policy each year to ensure that it remains fit for purpose; and • issue formal instructions to its internal valuers each year to set out which non-current assets are to be valued and the key policies and guidance that must be applied.
Accepted in full by management	Yes
Management response	Fully accept second and third bullet points but in relation to the first point we feel that we have followed our policy in drafting the statement of accounts.
Implementation date	The Council has in place Component Accounting. An updated policy will be reviewed by Audit Committee in November 2019 following discussions with the Wales Audit Office.

Exhibit 5: Matter arising 3

Schools asset revaluations	
Findings	Our testing of the revaluation of the Council's schools found that they had been calculated incorrectly. This error arose because officers had incorrectly input into their calculations the recommended internal and external areas (per square metre) for schools, which are prescribed in the UK Government Department for Education's Building Bulletin. This processing error resulted in an overstatement of £3.358 million in the value of the Council's school assets as at 31 March 2019. The misstatement was corrected in the financial statements, as set out in Appendix 3 .
Recommendation	The Council should: <ul style="list-style-type: none"> • strengthen its verification checks to ensure that the correct base-data is input each year; and • each year assess whether training is required for the officer(s) undertaking the processing.
Accepted in full by management	Yes.
Management response	The recommended basis as set out in the bulletin was used, but the Council accepts that human error in relation to secondary schools resulted in some information being incorrectly input. This is accepted and no further training need is identified.
Implementation date	N/A

Exhibit 6: Matter arising 4

Use of incorrect land valuations	
Findings	<p>Last year we reported that our testing of land and buildings found that for ten plots of land Council officers had used 2016 land values (per acre) in their calculations rather than the correct 2017 land values. Appendix 5 refers to this audit issue.</p> <p>This year we have again identified five instances where 2016 land values have been used to calculate valuations rather than the 2018 values. As was the case last year, this has had no impact on the valuation as at 31 March 2019 because the land values had not changed between 2016 and 2018.</p> <p>In future years, similar calculation errors would result in misstatement in the financial statements if the land values do change.</p>
Recommendation	The Council should strengthen its verification checks to ensure that the asset valuations are calculated using the correct base data.
Accepted in full by management	Yes
Management response	The recommendation is accepted and the Council will ensure the correct years' land values are used going forward.
Implementation date	N/A

Exhibit 7: Matter arising 5

Completeness of exit packages	
Findings	<p>Accounting standards require that the costs of exit packages are treated as an expense in the financial year in which they are approved, rather than in the year that they are paid.</p> <p>We identified 11 exit packages with a value of £273,000, which had been approved during 2018-19 but had not been accounted for in the 2018-19 financial statements. The misstatement was corrected in the financial statements, as set out in Appendix 3.</p>
Recommendation	<p>The Council should strengthen its process to identify all relevant exit packages, ensuring that:</p> <ul style="list-style-type: none"> the HR Department is aware of the nature of the information requested by the Finance Team; and on receipt of the HR information, the Finance Team reviews it thoroughly.
Accepted in full by management	Yes

Completeness of exit packages	
Management response	Processes have been strengthened to ensure that all exit packages are reported in line with the Code requirements.
Implementation date	Implemented.

Exhibit 8: Matter arising 6

Annual closedown of the council tax system	
Findings	<p>To enable the Council to issue its annual council-tax bills prior to the start of a financial year, at the start of March each year the council tax system is closed and rolled forward to the next financial year that is due to start from 1 April.</p> <p>As income is still received from some council-tax payers between the closure date and the closedown of the ledger (at 31 March), discrepancies are created between the closing balances for debtors, and creditors, on the council tax system and in the ledger.</p> <p>Any such income received during this period is posted in the ledger against the council tax debtor, thus reducing this balance. While this results in the overall net balance of the council tax debtor and creditor being correct, it incorrectly nets any income for future years (income in advance) against the debtor balance. The correct treatment would be to show any 'income in advance' as a year-end liability within creditors.</p> <p>The total income received during this interim period was approximately £400,000 for 2018-19, and we can therefore confirm that this classification error has not had a material impact in the 2018-19 financial statements.</p>
Recommendation	The Council should ascertain the reports that are available from the council tax system, which would enable its officers to establish the relevant financial year for all council tax income received while the council tax system is closed in March each year.
Accepted in full by management	Yes
Management response	A number of reports are produced that enable the closing of accounts and allocation of material amounts to debtors and creditors. However, we will look to further strengthen our processes to enable a much greater level of accuracy where possible. To this end we will also review processes and reports in other local authorities.
Implementation date	31 March 2020

Exhibit 9: Matter arising 7

Allocation of asset revaluations	
Findings	<p>Accounting standards require any gains or losses arising from an asset's revaluation to be netted against previous gains and losses on that asset.</p> <p>Our sample-based testing of asset revaluations identified an asset for which a revaluation gain had been posted to the revaluation reserve, rather than to that asset's existing revaluation loss. This error arose because the relevant box had not been ticked within the fixed asset register system, to indicate that there was a previous revaluation loss against the asset.</p> <p>Our extended audit testing of all the 2018-19 asset revaluations identified an additional four assets where the same error had arisen.</p> <p>The adjustment for the five assets of £848,578 affected the Revaluation Reserve and the cost of service within the Comprehensive Income and Expenditure Account.</p> <p>The misstatement was corrected in the financial statements, as set out in Appendix 3.</p>
Recommendation	The Council should strengthen its processes to ensure that the fixed asset register is fully and accurately updated for asset revaluations and other asset movements.
Accepted in full by management	Yes
Management response	Processes have been strengthened such that the requirement within the Asset Register to apply losses to previous revaluation gains is in place.
Implementation date	Implemented

Exhibit 10: Matter arising 8

Incorrect classification of Assets Held for Sale	
Findings	<p>For a non-current asset to be classified as an 'asset held for sale', it must meet certain criteria. The criteria include that the asset is being actively marketed and a sale is expected to be completed within one year.</p> <p>Our review of the four assets classified as 'assets held for sale' concluded that three were incorrectly classified because:</p> <ul style="list-style-type: none"> • for two assets the sales had fallen through before the year-end; and • for one asset, due to complications with the sale, it was deemed unlikely that the sale would complete during 2019-20. <p>An audit adjustment was made so that the three assets (with a value of £1,761,000) were reclassified from 'assets held for sale' to 'surplus assets'.</p>
Recommendation	<p>To ensure the correct classification of assets at the year-end, the Council should ensure that:</p> <ul style="list-style-type: none"> • the Finance Team informs the Property Section of the key criteria for assets to be classified as an 'asset held for sale'; and • the Property Section regularly updates the Finance Team on any change in circumstances that has affected the potential sale of an asset.
Accepted in full by management	Yes
Management response	Assets categorised as Held for Sale will be reviewed at the balance sheet date to assess their likely sale completion in line with the Code. The Council will ensure assets are categorised in line with accounting definitions.
Implementation date	31 March 2020

Exhibit 11: Matter arising 9

Funded nursing care debtors	
Findings	<p>Our sample testing of debtors included one item relating to the recharging of funded nursing care costs to the relevant health boards.</p> <p>To support the debtor balance we were provided with a reconciliation of expenditure incurred and income reimbursed. However, as at the end of June 2019 the invoice to recharge the health boards for 'income due to the Council for the quarter to 31 March 2019' had not been generated. Officers told us that the debt had not been invoiced due to staff absence within the relevant department.</p>
Recommendation	The Council should ensure that processes are put in place to provide staff cover so that the billing of debt proceeds on time.
Accepted in full by management	Yes
Management response	The Health Board were notified of the likely debt level at year-end and whilst there have been delays due to reasons noted above, finalisation of the quarter 4 invoice reconciliation was concluded 18 July, which the Health Board have agreed, and an invoice raised 23 July. The process will be reviewed to assess whether invoices can be issued on a more regular basis.
Implementation date	30 September 2019

Appendix 5

Update on last year's recommendations

Exhibit 12 sets out last year's recommendations and our follow-up review of the Council's actions. The full detail in respect of our reported findings, together with the comments by the Council's management, can be found in Appendix 4 of the document on the Council's website at:

<https://democratic.bridgend.gov.uk/documents/s16998/Appendix%20C%20BCBC%20Audit%20of%20Financial%20Statements%20Report%20Final%2020%2008%2018.pdf?LLL=0>

Exhibit 12: an update on last year's audit recommendations

Recommendation	Follow-up comments
Council tax creditor balances The Council should identify, and make every effort to repay, all amounts overpaid by council-tax payers for the years to 31 March 2018. The Council should strengthen its identification and routine repayment of any overpayments by council-tax payers after 31 March 2018.	The Council has strengthened its processes for identifying and repaying overpayments of Council tax in 2018-19. Our review of the processes confirmed that appropriate action is being taken to identify and seek to repay such overpayments.
Asset componentisation The Council should reintroduce component accounting in its 2018-19 financial statements and thereafter.	For 2018-19 we have again found issues with the Council's componentisation policy in relation to the consistency of application across the asset base and the non-application on some assets. We have reported this again at Exhibit 4 .
Use of incorrect land values The Council should consider strengthening its checks to ensure that the asset valuations are calculated using the correct base data.	For 2018-19 we have again found issues in the calculation of asset valuations. Errors have been identified again in land values (the same issue as last year) and also within the areas used to value school buildings. We have reported these issues at Exhibits 5, 6 and 9 .
Accuracy and integrity of the fixed asset register The Council should review the errors identified, correct the asset register, and strengthen its processes to help avoid any repetition of these type of errors.	Our review of the errors identified in 2017-18 has confirmed that the Council has reviewed and corrected the errors identified. However, we have identified other errors in relation to the inputting of data into the fixed asset register, which are set out at Exhibits 5, 6 and 9 .

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