

## Audit of Accounts Report – Bridgend County Borough Council

Audit year: 2019-20

Date issued: August 2020

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We intend to issue an unqualified audit report on your 2019-20 Statement of Accounts. There are some issues to report to you prior to their approval.

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# Audit of accounts report

## Introduction

- 1 This report summarises the main findings from our audit of your 2019-20 Statement of Accounts (the accounts). We have already discussed these issues with the relevant officers.
- 2 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. The level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled. We set the level at £4.4 million for this year's audit.
- 3 Further to the above there are some areas of the accounts that we judge to be of more importance to the reader, for which we have set a lower materiality level. This year our lower materiality levels are as follows:
  - £1,000 for senior officers' remuneration, pension and exit packages; and
  - £10,000 for related party transactions and balances, being pecuniary interests and/or positions of influence held by senior officers and members, or, by their close family.
- 4 We have now substantially completed this year's audit.
- 5 In our professional view we have complied with the ethical standards that apply to our work. We remain independent of yourselves and our objectivity has not been compromised in any way. There are no known relationships between ourselves and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 6 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You have a statutory requirement to prepare accounts and it is of considerable testament to the commitment of your finance team, and other staff where relevant, that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 7 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. The detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

## Exhibit 1 – impact of COVID-19 on this year’s audit

<p><b>Timetable</b></p>	<ul style="list-style-type: none"> <li>• The statutory deadline remained 15 June 2020 for your draft 2019-20 accounts to be signed by the responsible finance officer; and thereafter 15 September 2020 for their audit certification by the Auditor General.</li> <li>• The draft accounts were signed and submitted for audit on 30 June 2020. As statutorily required, on 15 June the Council published a signed statement on its website that explained the delay beyond 15 June due to COVID-19.</li> <li>• The audited accounts are scheduled to be certified on 14 September 2020, ahead of 15 September deadline.</li> <li>• It should be noted that the Welsh Government Finance Department had written to all councils earlier this year advising them that, due to the impact of COVID-19, they could submit signed draft accounts by 31 August 2020 and have them certified by 30 November 2020.</li> <li>• You have therefore produced your accounts significantly ahead of the Welsh Government’s permissible dates for this year.</li> </ul>
<p><b>Electronic signatures</b></p>	<p>Once your accounts have been approved by the Audit Committee, which is scheduled for 10 September, this year we will accept electronic signatures and the electronic transfer of the signed accounts to us. Officers have agreed to use this basis this year. Audit certification will also be by electronic signature this year.</p>
<p><b>Audit evidence</b></p>	<p>As in recent years, we received most of the audit evidence in electronic format. Importantly, this year you also provided us with enhanced remote read-only access to your ledger and shared folders. This access enabled us to undertake the audit while not at your offices.</p> <p>Where we have been unable to use our usual audit methodology, such as our physical inspection of your property, plant and equipment, we devised alternative audit means (such as photography) to obtain sufficient audit evidence.</p>

- 8 We will be reviewing what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 9 We intend to issue an unqualified audit opinion on this year's accounts once you have provided us with a Letter of Representation based on that set out in **Appendix 1**. We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.
- 10 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards. Our proposed audit report is set out in **Appendix 2**. This audit report includes one emphasis of matter paragraph. The aim of this paragraph is to draw the attention of the reader of the accounts to Note 30 in the financial statements.
- 11 Note 30 includes reference to the material uncertainty clause disclosed in the year-end valuation report for property asset funds managed on behalf of the RCT pension fund. The total value of this fund as at 31<sup>st</sup> March 2020 is £209m and the Council's share of this fund amounts to £36.8m (17.63%).
- 12 The audit opinion is not modified in respect of either of these matters.

## Significant issues arising from the audit

### Uncorrected misstatements

- 13 There are no uncorrected financial misstatements in the audited accounts.

### Corrected misstatements

- 14 There were misstatements in the draft accounts that management has corrected. However, we believe that they should be drawn to your attention and they are set out with explanations in **Appendix 3**.

### Other significant issues arising from the Audit

- 15 In the course of the audit, we consider a number of matters relating to the accounts and report any significant issues arising to you. There was one issue arising this year as shown in **Exhibit 2**:

## Exhibit 2 – significant issues arising from the audit

Significant issues arising from the audit		
<b>Material uncertainty in relation to pension property assets</b>	We have requested that the Council sets out in Note 30 additional narrative to disclose the material uncertainty in relation to pension property assets.	The Council has included the additional narrative disclosure. We have also drawn the reader's attention to this disclosure in an emphasis of matter paragraph in my audit report. The audit opinion is not modified in respect of this matter.

- 16 Our audit progressed smoothly and with a noticeably reduced number of audit issues in comparison to recent past years. This reflects positively on your continued improvements to both the financial management and the documentary evidence that underpin the annual accounts.

## Recommendations

- 17 We have raised one recommendation which is set out in **Appendix 4**. Management have added their response and we will review their actions as part of next year's audit. Last year we reported nine recommendations and we are pleased to confirm that management has implemented all of them.

# Appendix 1

## Final Letter of Representation

[The Council's letterhead]

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

10 September 2020

### Representations regarding the 2019-20 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 2020 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 10 September 2020.

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: 10 September 2020**

**Signed by:**

**Chair of the Audit Committee**

**Date: 10 September 2020**

# 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 2020 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 2019/20 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 2020 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 2019/20.

#### 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 the 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.

#### Emphasis of matter

I draw attention to Note 30 of the financial statements, which describes the impact of a material uncertainty disclosed in a pension fund manager report in their year-end

valuation report for the UK property fund they manage on behalf of the Rhondda Cynon Taf Pension Fund. The Council has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

## **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 the council's ability to continue to adopt the going concern basis of accounting for a period of at least 12 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 2019/20; 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 the 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:

- proper 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 13, 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 the 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](http://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**  
**14 September 2020**

**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

# Appendix 3

## Summary of corrections made

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.

### Exhibit 2: summary of corrections made

Value of correction	Nature of correction	Reason for correction
Various, as set out	<p><b>Note 19 Related Party Transactions</b> Inclusion of the following year-end balances within related party disclosures:</p> <p><b>Member declarations</b> Amounts owed by the Council:</p> <ul style="list-style-type: none"> <li>Care and repair £5,965; and</li> <li>Sarn Community Council £11,659.</li> </ul> <p>Amounts owed to the Council:</p> <ul style="list-style-type: none"> <li>Credu Charity (Porthcawl) Ltd £13,289; and</li> <li>Valleys to Coast £44,285.</li> </ul> <p><b>Chief officer declarations</b> Amounts owed by the Council:</p> <ul style="list-style-type: none"> <li>Capita Glamorgan Consultancy Ltd £4,063.</li> </ul> <p><b>Other public bodies:</b></p> <ul style="list-style-type: none"> <li>Amounts owed to the Council by Awen Trust £66,756.</li> </ul> <p>The prior-year balances were also disclosed.</p>	To disclose the amounts owed by the Council to certain related parties at 31 March 2020.
£17,925	<p><b>Note 19 Related Party Transactions</b> Reduction in the amount paid to Awen Trust from £3,231,354 to £3,213,429.</p>	To disclose the correct 2019-20 expenditure in respect of Awen Trust.

Value of correction	Nature of correction	Reason for correction
Reductions of £28,164 to the salary, and £5,999 to the pension contribution costs	<p><b>Note 15 Disclosure 3</b></p> <p>Amendment of the salary and pension contribution costs for the Head of Partnership Services to £56,327 and £11,998 respectively.</p>	To reflect the salary costs for the Head of Partnership Services for the period during 2019-20 that they reported directly to the Chief Executive and, thus the period that they are considered to be a 'senior officer' in respect of this disclosure.
Various (net impact £nil)	<p><b>Note 26 Provisions</b></p> <p>Replacement of the amount of £(369,000) in the 'Insurance' column, against the line for 'Amounts used in 2019-20' with the following:</p> <ul style="list-style-type: none"> <li>• additional provisions made during 2019-20 of £284,000; and</li> <li>• amounts used/released in 2019-20 of £(653,000).</li> </ul>	To account on a gross basis for the provisions arising and the provisions used during 2019-20. The changes had no impact on the closing provisions at 31 March 2020.
£425,303	<p><b>Comprehensive Income and Expenditure Account</b></p> <ul style="list-style-type: none"> <li>• 'Cost of Service gross expenditure for 'Education and Family Support' decreased by £425,303; and</li> <li>• '(Gain)/Loss on disposal of non-current assets' increased by £425,303.</li> </ul>	To accurately disclose the net book value of a derecognised asset and its loss on disposal. This had no impact on the Council Fund balance at 31 March 2020.
£1,183,000	<p><b>Balance Sheet</b></p> <ul style="list-style-type: none"> <li>• 'Property, Plant and Equipment - Other land and buildings' increased by £1,183,000.</li> </ul>	To disclose a care home property, for which Council regained control during 2019-20.



Value of correction	Nature of correction	Reason for correction
	<ul style="list-style-type: none"> <li>• 'Unusable reserves – Revaluation Reserve' increased by £1,183,000.</li> </ul> <p><b>Note 21c Non-current Assets Valuation</b></p> <ul style="list-style-type: none"> <li>• 'Revaluation increases/(decreases)' recognised in the Revaluation Reserve (for 'Other Land and Buildings') increased by £1,183,000.</li> </ul> <p><b>Note 29a Revaluation Reserve</b></p> <p>'Upward Revaluation of Assets' increased by £1,183,000.</p>	

# Appendix 4

## Recommendations

We set out all the recommendations arising from our audit, together with management's response. This year we are raising just one recommendation, reflecting well on the improvements that management have continued to make. We will follow up the recommendation as part of our 2020-21 audit.

### Exhibit 3: matter arising 1

<b>Matter arising 1 – the Council's oversight of its hosted fixed-asset-register needs to be strengthened</b>	
<b>Findings</b>	The Council's fixed asset register is hosted by the Chartered Institute of Public Finance and Accountancy (CIPFA), using 'CIPFA AssetManager.net'. We established that CIPFA, as supplier of the hosted system, has open access to the data held which poses an external data-risk. For example, we understand that CIPFA can change the data within the system.
<b>Recommendation</b>	The Council should strengthen its controls around the CIPFA-hosted arrangements in place for fixed assets. Strengthening should include the Council undertaking regular documented reviews of CIPFA's access to and use of the data.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The Council will undertake regular reviews of the register in addition to its year-end processes to further strengthen its controls.
<b>Implementation date</b>	1 September 2020





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