



2015 Audit Plan

Bridgend County Borough Council

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2015 Audit Plan

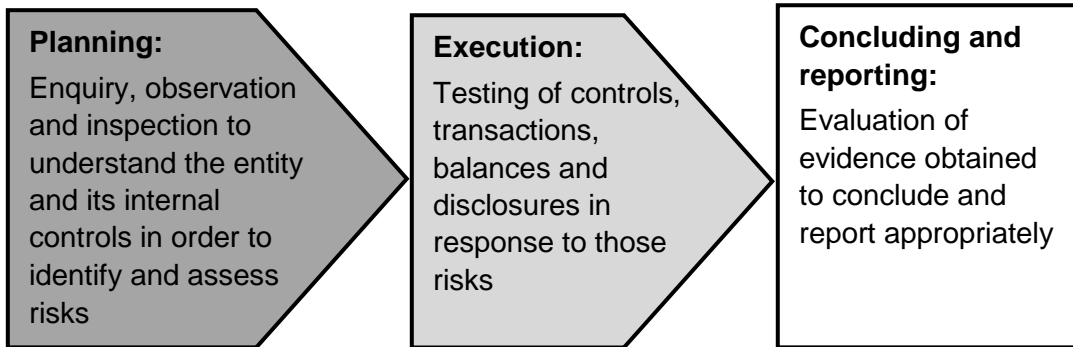
Summary

1. As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
2. The Financial Audit element of this plan has been prepared by KPMG LLP on my behalf. The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
3. My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Financial audit

4. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
5. I also consider whether or not Bridgend County Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
6. [Appendix 1](#) sets out my responsibilities in full.
7. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: My audit approach



8. The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: Financial audit risks

Financial audit risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and, • evaluate the rationale for any significant transactions outside the normal course of business.
Valuation of property: <ul style="list-style-type: none"> • The Council has undertaken full valuation of its property portfolio as at 1 April 2014. This valuation was performed by the internal valuers, and was based on a revised methodology from the approach taken at the last valuation in 2009. • The Council also needs to consider whether the carrying value of property assets are still materially stated as at 31 March 2015 in light of potential variances since the valuation date, as there is a risk that a material misstatement may arise from movements in value during the year. 	My audit team will: <ul style="list-style-type: none"> • review the appropriateness of valuation methodology and consider the expertise of the valuers performing the exercise; • agree a sample of the asset valuations posted as per the fixed asset register back to valuation reports and check the accuracy of the accounting entries for these valuations; and • review the Council's consideration of the accuracy of property carrying values as at 31 March 2015.
Accounting for Local Authority Maintained Schools:	As part of our audit, we will ensure the Authority is aware of the latest guidance

Financial audit risk	Proposed audit response
<ul style="list-style-type: none"> LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools. Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet. 	<p>and review the judgements it has made. This will include :</p> <ul style="list-style-type: none"> Determining whether the Authority has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by VA, VC and Foundation schools; and Considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary.

9. There is a presumption of a risk of fraud in revenue recognition (ISA 260 Para. 26). We have rebutted this risk, as the nature of income into the Council is such that the risk of material misstatement is reduced.
10. I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. Materiality for planning purposes has been set at £4.5 million, which equates to 1 per cent of prior year gross expenditure. We will revise this materiality based on current year gross expenditure when this information is available and the levels at which I judge misstatements to be material will be reported to the Audit Committee prior to completion of the audit.
11. For reporting purposes, I will treat any misstatements below a 'trivial' level of £100,000 as not requiring consideration by those charged with governance and therefore I will not report them.
12. My fees are based on the following assumptions:
 - information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;

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- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and,
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
13. In addition to my responsibilities in respect of the audit of Bridgend County Borough Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about Bridgend County Borough Council to support preparation of Whole of Government Accounts.

Certification of grant claims and returns

14. I have been requested to undertake certification work on Bridgend County Borough Council's grant claims and returns.
15. My audit fee for this work is set out in [Exhibit 6](#).

Overall issues identified

16. [Exhibit 3](#) summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2013-14.

Exhibit 3: Overall issues relating to grant claim and return certification

Effectiveness of grant coordination arrangements

The Authority's arrangement for the production and submission of grant claims and returns are generally good with some improvement from last year, but still some scope for improvement on specific grants.

Qualified grant claims and returns qualified in 2013-14

My team issued unqualified certificates for 21 non-WEFO grants and returns but qualifications were necessary in two cases. We did not need to raise any points for the attention of the Grant Paying Body in the two WEFO project accountants' reports that we issued prior to March 2015. At the time of drafting this report, one WEFO project audit is still to be completed.

Issues related to specific grant claims and returns

17. The issues relating to specific grant claims and returns will be reported to members separately within our Annual Certification of Grants and Returns report.

Other work undertaken

18. There is a requirement for statutory harbour undertakings (including local authorities that are also harbour authorities) to prepare an annual statement of accounts, which are subject to an annual audit. As a small harbour undertaking, Porthcawl Harbour Authority will prepare an annual return to meet this requirement, and this will be subject to our limited assurance regime. This is the first year that such a return will be prepared.
19. I am also responsible for the audit of Catalogue Supplies Service Joint Committee (County Borough Supplies) and Coychurch Crematorium Joint Committee. I wish to draw your attention to the following risk areas I have identified in relation to Catalogue Supplies Service Joint Committee:
 - The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk.
 - There is a risk of material misstatement due to fraud in revenue recognition and as such this is treated as a significant risk. We will perform suitable procedures over revenue cut-off relating to this risk.
20. Following the making of the Accounts and Audit (Wales) Regulations 2014 which increases the thresholds defining smaller relevant bodies, Coychurch Crematorium will return to preparing an Annual Return of income and expenditure and statement of balances. This will be subject to our limited assurance regime. The fees for these two Joint Committees administered by the Council are funded by the Joint Committees.
21. My audit fee for this work is set out in [Exhibit 6](#).

Performance audit

22. I am required by the Measure to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with requirements to make arrangements to secure continuous improvement. I must also carry out audits of whether the authority has discharged its duties under the Measure. My improvement assessment work, combined with my work on financial matters, also discharges my responsibility to satisfy myself that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
23. To discharge the requirements of the Measure, I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. I propose to undertake such an assessment of the Council during 2015-16. In the intervening years, I will maintain a 'light-touch' overview of developments and of the progress made by the

authority. In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.

24. In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.
25. I set out in this section the 12-month programme of performance audit work to be undertaken at Bridgend County Borough Council. The content of the programme has been determined by a consideration of the risks and challenges facing Bridgend County Borough Council, the extent of accumulated audit and inspection knowledge, including that of other external review bodies, as well as other available sources of information including Bridgend County Borough Council's own mechanisms for review and evaluation.
26. The components of my performance audit work are shown in [Exhibit 4](#) and have been designed in order to help deliver the high-level objectives set out in our 2013-2016 corporate strategy (www.wao.gov.uk/publication/wales-audit-office-corporate-strategy-2013-2016).

[Exhibit 4: Components of my performance audit work](#)



27. The performance work I propose to undertake is summarised in [Exhibit 5](#).

Exhibit 5: Contents of my 2015-16 performance audit work programme

	Specific projects
Improvement audit and assessment	<p>Corporate Assessment Review of Bridgend County Borough Council's capacity and capability to deliver continuous improvement.</p> <p>'Improvement plan' audit Audit of discharge of duty to publish an improvement plan.</p> <p>'Assessment of performance' audit Audit of discharge of duty to publish an assessment of performance.</p> <p>Financial management review Further work on financial management arrangements following up our 2014-15 review, and looking forward to 2016-17 budget setting and savings proposals. There will also be a focus on reserves position, policy and use of reserves.</p> <p>Governance review Preliminary review in advance of the corporate assessment.</p> <p>Performance management review Preliminary review in advance of the corporate assessment.</p>
Follow-up work	<p>Follow up work will be used to inform the corporate assessment and will include:</p> <ul style="list-style-type: none"> • Scrutiny arrangements and developments since participation in the Wales Audit Office 2013 shared learning event. • Development of performance evaluation arrangements.
Local government studies	<p>The strategic approach of councils to income generation and charging for services.</p> <p>Council funding of third-sector services.</p> <p>The effectiveness of local community safety partnerships.</p>
Good practice	<p>In line with my commitment to identify and share good practice, I will continue to host shared learning seminars, identify relevant case studies and focus my work on identifying and promoting effective practice.</p>

28. The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

Fee, audit team and timetable

Fee

29. Your estimated fee for 2015 is set out in [Exhibit 6](#). This figure represents a 0.76 per cent decrease compared to the fee set out in the 2014 annual audit outline.

Exhibit 6: Audit fee

Audit area	Proposed fee (£) ¹	Actual fee last year (£)
Financial audit work ¹	195,700	195,700
Performance audit work: ²	97,398	99,654
Total fee	293,098	295,354
Grant certification work ³	40,000	40,000
Other financial audit work		
• Porthcawl Harbour Authority ⁴	TBC	-
• Catalogue Supplies Service Joint Committee	8,000	8,000
• Coychurch Crematorium Joint Committee ⁴	TBC	7,000
Total fee for other audit work	TBC	15,000

Notes:

¹ Payable November 2014 to October 2015.

² Payable April 2015 to March 2016.

³ Payable as work is undertaken on an hourly basis. The 2013-14 fee runs from 1 April 2013 to 31 March 2015 and includes an estimate of fees for work on WEFO grants to be completed in March 2015.

⁴ The Harbour Authority and Crematorium will be subject to the Audit General's Limited Assurance regime in 2014-15. The fees are based on a scale dependent on gross income and expenditure during the year and will be confirmed once these figures are finalised.

30. Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with Bridgend County Borough Council.
31. Further information on my fee scales and fee setting can be found on the Wales Audit Office website at: www.wao.gov.uk/about-us/fee-scales-and-fee-setting.

Audit team

32. The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

¹ The fees shown in this document are exclusive of VAT, which is no longer charged to you.

Exhibit 7: My team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Director	029 2032 0500	John.herniman@wao.gov.uk
Darren Gilbert (KPMG)	Engagement Lead – Financial Audit	029 2046 8205	darren.gilbert@kpmg.co.uk
Jane Holownia	Engagement Lead – Performance Audit	029 2032 0500	Jane.holownia@wao.co.uk
Steve Barry	Performance Audit Manager	07786 190210	Steve.barry@wao.co.uk
Matthew Arthur (KPMG)	Financial Audit Manager	029 2046 8006	matthew.arthur@kpmg.co.uk

33. I can confirm that my team members are all independent of Bridgend County Borough Council and your officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

Timetable

34. I will provide reports, or other outputs as agreed, to Bridgend County Borough Council covering the areas of work identified in this document. My key milestones are set out in Exhibit 8.

Exhibit 8: Timetable

Planned output	Work undertaken	Report finalised
2015 Audit Plan	January 2015 – March 2015	April 2015
Financial accounts work: <ul style="list-style-type: none"> Audit of Financial Statements Report Opinion on Financial Statements 	March – September 2015	September 2015 September 2015
Performance work: <ul style="list-style-type: none"> Corporate Assessment Improvement plan audit Assessment of performance audit Financial management review Governance review Performance management review 	Sept/Oct 2015 June 2015 November 2015 October 2015 June 2015 June 2015	Estimated* May 2016 June 2015 November 2015 January 2016 September 2015 November 2015
Annual Improvement Report	Incorporating corporate assessment	May 2016

* Subject to timely clearance of draft findings with Bridgend County Borough Council.

Appendix 1

Respective responsibilities

Financial audit

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- Their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- The consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Bridgend County Borough Council made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- Bridgend County Borough Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect Bridgend County Borough Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and

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- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within Bridgend County Borough Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to ‘make arrangements to secure continuous improvement in the exercise of [their] functions’. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county borough councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

To discharge the requirements of the Measure, I undertake periodic corporate assessments at each improvement authority. Since 2013-14, I have undertaken this programme of corporate assessments on a cyclical basis. Currently I have agreed with the Welsh Government that I may use the grant that I receive from the Welsh Government to fund the corporate assessment. This means that, in addition to fee-funded improvement assessment and audit work, each authority will receive an in-depth corporate assessment once during a four-year period. In the intervening years, I will maintain a ‘light-touch’ overview of developments and of the progress made by the authority.

In the event of emerging issues of concern or matters of priority, I do reserve the flexibility to undertake a more frequent corporate assessment.

I may also, in some circumstances, carry out special inspections (under section 21), in respect of which I will provide a report to the relevant authorities and Ministers, and which I may publish (under section 22). I will summarise audit and assessment reports in my

published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

In addition to my programme of audit and assessment work under the Measure, I undertake a programme of local government studies as required under sections 41 and 42 of the Public Audit (Wales) Act 2004. This work is not included within the local performance audit fee, but is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund.

Appendix 2

Performance work in last year's audit outline still in progress

Performance audit project	Status	Comment
Governance considerations when considering alternative models of service delivery	Agreed project brief	Scheduled for March/April 2015 estimated report date June 2015

Appendix 3

National value-for-money studies

Bridgend County Borough Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are funded by the National Assembly and are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure.

The table below covers all of the value-for-money studies work currently programmed, although some of this work is still at an early stage of development. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. I will shortly be considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2015-16.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Topic	Anticipated publication timeframe
GP prescribing	April to June 2015
Welsh Government investment in next generation broadband infrastructure	April to June 2015
Regional education consortia	April to June 2015
Welsh Government acquisition of Cardiff Airport	April to June 2015
Rail services	April to June 2015
Orthopaedic services	April to June 2015
NHS clinical coding	Summer 2015
NHS waiting lists and private practice	Summer 2015
Picture of public services	Autumn 2015
Development of Natural Resources Wales	Autumn 2015
Regeneration Investment Fund for Wales ²	To be confirmed
Wales Life Sciences Investment Fund ³	To be confirmed
Flood and erosion risk management (likely to focus on coastal flooding)	To be confirmed

² While in clearance, the timescale for publication is uncertain for reasons specific to the project.

³ While in clearance, the timescale for publication is uncertain for reasons specific to the project.

Topic	Anticipated publication timeframe
Early intervention and public behaviour change ⁴	To be confirmed
Welsh Government interventions in local government ⁵	To be confirmed
Welsh Government responses to audit recommendations	To be confirmed
Public procurement and the National Procurement Service	To be confirmed

⁴ In the short-term, development of a new picture of public services report will take priority over this work. However, the picture of public services report is likely to reflect on these themes in some way. Wales Audit Office staff will also be exploring opportunities to take forward work in this area as part of our good practice exchange programme.

⁵ Plans for this work are being revisited in light of the Welsh Government commissioned review of the Anglesey intervention by the Public Policy Institute for Wales and to take into account any wider implications arising from the local government reform programme.

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