

Archwilydd Cyffredinol Cymru  
Auditor General for Wales



WALES **AUDIT** OFFICE  
SWYDDFA **ARCHWILIO** CYMRU

# Audit of Financial Statements Report

## **Bridgend County Borough Council**

**Audit year:** 2014-15

**Issued:** September 2015

**Document reference:** BCBCAFSR2015

# Status of report

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This document has been prepared for the internal use of Bridgend County Borough Council as part of work performed in accordance with the statutory functions.

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

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

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# Summary Report

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## 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 at 31 March 2015 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 level at which we judge such misstatements to be material for Bridgend County Borough Council is £4.5m. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Bridgend County Borough Council, for 2014-15, that require reporting under ISA 260.

## Status of the audit

6. We received the draft financial statements for the year ended 31 March 2015 prior to the deadline of 30 June 2015, and we have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Corporate Director - Resources and the finance team.

## Proposed audit report

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

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## Significant issues arising from the audit

### Uncorrected misstatements

10. We set out below the one misstatement we identified in the financial statements that has been discussed with management but remains uncorrected, and highlight this to you so you can consider whether it should be corrected. If you decide not to correct this misstatement, we ask that you provide us with the reasons for non-correction through the Letter of Representation.

- Debit Land & Buildings £3,931,051
- Credit Revaluation Reserve / Depreciation and Impairment £3,931,051<sup>1</sup>

Being the unposted element of the property valuation difference between 1 April 2014 and 31 March 2015 that remains, after the Council has posted £22.7m of the overall £26.6m difference (see paragraph 12). Posting this adjustment would have necessitated a further 745 changes to the fixed asset register and corresponding amendments to the Statement of Accounts; the Council considered this to be unfeasible in the time scale to meet the September 30 deadline for accounts publication.

### Corrected misstatements

11. There is one misstatement that has 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. This is set out with explanation in [Appendix 3](#).

### Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:

- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** Generally, we found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.

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<sup>1</sup> The credit side of the journal will be split between revaluation reserve and Depreciation and Impairment within the Comprehensive Income and Expenditure Statement, but this detail cannot be determined without fully processing each transaction.

- **There were no significant matters discussed and corresponded upon with management which we need to report to you.** Key financial statement audit risks identified in the audit strategy, presented to the Audit Committee on 16 April 2015, and our related findings are shown in the table below.

Key financial statement audit risk	Findings
<b>Management override of controls</b>	<ul style="list-style-type: none"> <li>• We used a risk based approach to select journals made throughout the year and tested these back to supporting documentation.</li> <li>• We reviewed accounting estimates including provisions and depreciation to assess if there were any management biases.</li> <li>• We did not identify any significant transactions which were outside of the normal course of business.</li> </ul>
<b>Valuation of property</b>	<ul style="list-style-type: none"> <li>• The Council undertook a full valuation of its property portfolio as at 1 April 2014 which has been posted within the 2014-15 Statement of Accounts. This valuation was performed by the internal valuers, and follows the last full valuation which was performed by external valuers in 2009. We reviewed the appropriateness of the methodology and expertise of the valuers, and found both of these to be reasonable. We also agreed a sample of the asset valuations posted as per the fixed asset register back to valuation reports and checked the accuracy of the accounting entries for these valuations, with no issues identified.</li> <li>• Following the 1 April valuation, in order to consider whether the carrying values of property assets were still materially stated as at the year-end balance sheet date, the valuers applied the same methodology to perform a detailed desktop valuation as at 31 March 2015, updating the valuations using the same indices as used in the 1 April 2015 and updated useful lives, but not visiting the sites to consider any deterioration in condition in the 364 days since the last valuation.</li> <li>• This identified an upwards valuation movement between 1 April 2014 and 31 March 2015 of £26.6m. Due to the quantum of the difference in comparison to our materiality figure of £4.5m, and the reliability of the estimate given that it was accurately calculated on the same basis as the full valuation at 1 April 2014, we requested that management post the valuation adjustment within the Statement of Accounts.</li> <li>• The Council has now posted £22.7m of this adjustment in the final Statement of Accounts, leaving a remaining unposted balance of £3.9m which has not been posted due to the amount of time which would be required to process these 745 smaller adjustments through the CIPFA fixed asset system. This difference has been recognised as an unadjusted difference in paragraph 10 above, but as it is below our materiality threshold, does not impact on our audit opinion.</li> <li>• The Council needs to continue to consider whether its capital assets are materially misstated at each year-end in future years – see <a href="#">Appendix 4</a>.</li> </ul>

Key financial statement audit risk	Findings
<b>Accounting for Local Authority Maintained Schools</b>	<ul style="list-style-type: none"> <li>• The Council has identified all relevant maintained schools within its area and undertaken a review of the agreements underpinning the use of school assets by Voluntary Aided and Voluntary Controlled schools against the final guidance published this year through a LAAP Bulletin, having already considered the treatment of these schools in previous years. This has not resulted in any changes in treatment this year as the Council's current treatment has been deemed appropriate in all cases.</li> <li>• We have reviewed the Council's paper setting out its treatment of the schools, and consider the treatment adopted by the Council to be reasonable.</li> </ul>

- **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.** We have also not identified any significant control deficiencies that might be symptomatic of broader weaknesses in the overall control environment. We have obtained follow-up updates on recommendations raised in last year's audit which have been detailed in [Appendix 4](#).
- **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

### Other work undertaken

13. Under the Harbours Act 1964, there is a requirement for statutory harbour undertakings (including local authorities that are also harbour authorities) to prepare an annual statement of accounts which is subject to an annual audit. Porthcawl Harbour Authority is such an undertaking. As the Harbour Authority's total income and expenditure of £219,000 is under the Companies Act small company threshold of £6.5 million and Accounts and Audit (Wales) Regulations 2014 'smaller body' threshold of £2.5 million, it has prepared an annual return to meet the accounts requirement. This is the first year that such a return has been prepared.
14. We have reviewed this return in accordance with our limited assurance regime, and as a result, some amendments have been made to the return. These relate to:
  - identifying the precise capital assets and related depreciation charge relevant to the Harbour;
  - recognition of an estimated accrual of £155,000 in relation to the refurbishment project retention; and
  - amendments to the way in which funding from the Council's central budget is reflected in the form.

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15. Following these amendments, the final version of the return is to be approved by this Committee and it is our intention to issue an unqualified limited assurance audit opinion.
  16. We are also responsible for the audit of Catalogue Supplies Service Joint Committee (County Borough Supplies) and Coychurch Crematorium Joint Committee. We expect to issue unqualified opinions in respect of both bodies. Our work in relation to these bodies will be reported separately to the relevant Joint Committees.

## Independence and objectivity

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



# Appendix 1

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## Final Letter of Representation

[Audited body's letterhead]

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

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

24 September 2015

## Representations regarding the 2014-15 financial statements

This letter is provided in connection with your audit of the financial statements (including that part of the Remuneration Report that is subject to audit) of Bridgend County Borough Council for the year ended 31 March 2015 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

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

## Management representations

### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15; in particular the financial statements give a true and fair view in accordance therewith.

- 
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

## Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Bridgend County Borough Council and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

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

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

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

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

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

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The financial statements are free of material misstatements, including omissions. The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

A summary of these items is set out below:

- Debit Land & Buildings £3,931,051
  - Credit Revaluation Reserve / Cost of Services £3,931,051
- Being the remaining unposted element of the property valuation difference between 1 April 2014 and 31 March 2015. The credit side of the journal will be split between revaluation reserve and cost of services, but this detail cannot be determined without fully processing each transaction.

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

## Representations by the Audit Committee

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Bridgend County Borough Council on 24 September 2015.

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

Signed by:

Officer who signs on behalf of management

Date:

Signed by:

Chair of Audit Committee

Date:

# Appendix 2

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## Proposed audit report of the Auditor General to Bridgend County Borough Council

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

I have audited the accounting statements and related notes of Bridgend County Borough Council for the year ended 31 March 2015 under the Public Audit (Wales) Act 2004.

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

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the independent auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on [page 19](#), the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

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

### **Scope of the audit of the accounting statements**

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

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of Bridgend County Borough Council**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Bridgend County Borough Council as at 31 March 2015 and of its income and expenditure for the year then ended; and

- 
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

### **Matters on which I report by exception**

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Bridgend County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

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

**September 2015**

## Appendix 3

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

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

Value of correction	Nature of correction	Reason for correction
£22.7m	DR Land and Buildings	Posted element of valuation difference between 1 April 2014 valuation and valuers' updated valuation as at 31 March 2015 (see paragraph 12). Total impact is £22.7m increase to Balance Sheet and £7m increase in surplus within the Comprehensive Income & Expenditure Statement, with zero impact on the Council Fund.
(£15.6m)	CR Revaluation Reserve	
(£7m)	CR Depreciation and Impairment (Comprehensive Income & Expenditure Statement)	
(£7m)	CR Capital Adjustment Account	
£7m	DR Movement in Reserves Statement	

There are also a small number of minor presentational and disclosure amendments which have been incorporated into the final version of the accounts, including the addition of capital improvement finance leases within the HALO contract to the relevant lease disclosures, and some narrative improvements to the Property, Plant and Equipment and Pensions notes.

# Appendix 4

## Follow-up on prior year recommendations

The following recommendations were considered material and reported to the Audit Committee following our 2013-14 audit. We have followed up on these issues this year to confirm the current status.

Recommendation	Management Response	Follow up
<p><b>Valuation of Capital</b></p> <p>Council to reconsider their processes for revaluing PPE to ensure capital assets are not materially misstated at each year-end, in line with recent clarification of CIPFA Code.</p> <p>Recommendation to consider how best to gain assurance that property valuations are not materially misstated on an annual basis. This could include:</p> <ul style="list-style-type: none"> <li>• Performing an annual valuation on 20% of property, to ensure any changes in valuation are highlighted and can be applied elsewhere if required;</li> <li>• Revaluing assets with high carrying amounts more regularly than five years; or</li> <li>• Identifying an appropriate indices or set of indices against which to benchmark the value of property annually and assess whether a formal valuation of certain assets are required.</li> </ul>	<p>The Council will be revaluing its full property portfolio during 2014-15 so that all assets will have a new valuation as at 1 April 2014.</p> <p>A working group of both finance and property staff will be established to review the way property, plant and equipment will be revalued going forward to ensure that capital assets are not materially misstated at the end of each financial year. This will complement the existing practices of annual impairment and enhancement reviews and annual revaluation of investment assets.</p>	<p>As noted in paragraph 10, valuers updated their 1 April 2014 valuations as at 31 March 2015 based on a detailed indicative valuation using the same methodology, which identified a £26.6m upwards valuation movement between 1 April and 31 March. This was not posted in the pre-audit Statement of Accounts, but following discussions between the auditors and officers, an adjustment of £22.7m was posted to the final accounts, leaving a remaining immaterial difference of £3.9m. The Council should continue to consider its processes to ensure capital assets are not materially misstated at each year-end. Where it is identified that adjustment is required, it should post these to the pre-audit accounts to avoid inefficiencies in the accounts preparation and audit process.</p>
<p><b>Remuneration Note: Banding and Senior Officers' pay</b></p> <p>Several errors noted when reviewing the banding disclosure and the Senior Officers' remuneration tables in the Notes to the Accounts.</p> <p>Recommendation to develop a less manual way to compile the disclosures to reduce the risk of error in the future.</p>	<p>Agreed. The compilation of these disclosures notes will be reviewed and a system generated report will be examined.</p>	<p>No errors were noted in the compilation of these disclosures during our 2014-15 audit.</p>

Recommendation	Management Response	Follow up
<p><b>Bank Reconciliation</b></p> <p>Difficulty in auditing YE Bank reconciliation due to 'sweeping' of bank accounts in 2013-14 FY and complicated lay-out.</p> <p>Recommendation to simplify bank reconciliation by including only the year-end balance, and excluding the opening balance and in year transactions.</p> <p>In addition, if a sweep is still required, the Council should ensure that all schools perform their reconciliations consistently, and appropriately document the impact of the sweep on the ledger.</p>	<p>A new banking contract will be in place by the 1 January 2015 so the sweeping of bank accounts will not be an issue for the 2014-15 audit of the accounts.</p> <p>The bank reconciliation and associated working papers for 2014-15 will exclude the opening balance and in-year transactions.</p>	<p>The Council has changed banking contract during 2014-15 and prepared new bank reconciliation papers which facilitated easier audit testing.</p> <p>After some initial teething problems with the new reconciliation process following the changeover, all bank accounts were fully reconciled at 31 March 2015.</p>





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