

Appendix A

International Standard for Auditing (UK and Ireland) 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditor’s responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and ‘those charged with governance’, which for the Vale of Glamorgan Council is the Council. Management, with the oversight of the full Council and Audit Committee, should ensure there is a strong emphasis on fraud prevention and deterrence and create a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

What are we required to do?

As part of our risk assessment procedures we are required to consider the risks of material misstatement due to fraud. This includes understanding the arrangements management has put in place in respect of fraud risks. The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

We also need to understand how the Audit Committee exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. We are also required to make enquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud

Enquiries of management - in relation to fraud

Question	2016-17 Response	2017-18 Response
<p>1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principal reasons?</p>	<p>No specific fraud issues have been identified during the year; this is supported by the Head of Audit's Annual opinion report providing satisfactory assurance on all the key financial systems. In addition, and as reported in 2015/16; this is an integral part of the Audit Committee's function. They have regard to the reports laid before them by Internal and External Audit / Regulators. This informs their review of the financial statements and the level to which there may be a risk of material misstatement.</p>	<p>There was only one specific fraud issue identified during the year and this was reported to the Council's Audit Committee; the extent of the fraud was not considered material in respect of the Council's Financial Statements. The Head of Audit's Annual opinion report providing satisfactory assurance on all the key financial systems. In addition, and as reported in 2017/18; this is an integral part of the Audit Committee's function. They have regard to the reports laid before them by Internal and External Audit / Regulators. This informs their review of the financial statements and the level to which there may be a risk of material misstatement</p>
<p>2. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?</p>	<p>The Council's Internal Audit Shared Service plays a crucial part in both identification and responding to the risks of Fraud. The IASS has an annual risk based audit plan which includes key financial systems and all auditors are very mindful of the potential presence of fraud in every audit they undertake. All issues are reported and allegations are investigated by Internal Audit and potential weaknesses in the control environment are identified and reported. Any matters of significance are reported to the Managing Director, the Head of Finance and Corporate Management Teams. Regular fortnightly</p>	<p>As previously stated, the Council's Internal Audit Shared Service plays a crucial part in both identification and responding to the risks of Fraud. The IASS has an annual risk based audit plan which includes key financial systems and all auditors are very mindful of the potential presence of fraud in every audit they undertake. All issues are reported and allegations are investigated by Internal Audit and potential weaknesses in the control environment are identified and reported. Any matters of significance are reported to the Managing Director, the Head of Finance and Corporate</p>

Enquiries of management - in relation to fraud

Question	2016-17 Response	2017-18 Response
	updates are provided to the Managing Director and the Head of Finance until such time as the control issues have been addressed.	Management Teams.
3. What arrangements are in place to report fraud issues and risks to the Audit Committee?	<p>Any concerns regarding internal controls, fraud or misappropriation are reflected in Audit recommendations and will impact on the level of assurance given to that particular area and the Council as a whole. Regular reports are taken to both Corporate Management Team and the Council's Audit Committee highlighting where assurance levels are limited and the potential effect on the overall system of internal control.</p> <p>In addition, the Managing Director and the Head of Finance receive fortnightly updates on progress.</p>	<p>Any concerns regarding internal controls, fraud or misappropriation are reflected in Audit recommendations and will impact on the level of assurance given to that particular area and the Council as a whole. Regular reports are taken to both Corporate Management Team and the Council's Audit Committee highlighting where assurance levels are limited and the potential effect on the overall system of internal control.</p> <p>In addition, the Audit Committee will also receive updates on complaints received and whistleblowing under the Council's Policy.</p>
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p>The Council has embodied the principles of good governance and ethical behaviour in its policy documents including Codes of Conduct for both Members and Employees; Procurement guidance and contract conditions. Internal Audit, as an example, have a Code of Ethics which all Auditors append their signature to stating that they have read, understood and will abide by the Code.</p> <p>In addition, the Internal Audit Shared Service undertakes an annual review of the</p>	<p>The Council has embodied the principles of good governance and ethical behaviour in its policy documents including Codes of Conduct for both Members and Employees; Procurement guidance and contract conditions. Internal Audit, as an example, have a Code of Ethics which all Auditors append their signature to stating that they have read, understood and will abide by the Code. In addition, the Internal Audit Shared Service undertakes an annual review of the Council's Governance arrangements and in</p>

Enquiries of management - in relation to fraud

Question	2016-17 Response	2017-18 Response
	Council's Governance arrangements and in particular its compliance with the Code of Corporate Governance.	particular its compliance with the Code of Corporate Governance.
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2017?	N/A	One case of fraud within the audited body since 1 st April 2017, this matter was not deemed material in relation to the Statement of Accounts but has been referred to the South Wales Police.

Enquiries of the Audit Committee – in relation to fraud

Question	2016-17 Response	2017-18 Response
1. How does the Audit Committee exercise oversight of management's processes for identifying and responding to the risks of fraud within the audited body and the internal control that management has established to mitigate those risks?	This is reflected in the Audit Committee's Terms of Reference and the reports as set out in the Forward Work Programme for the Committee.	This is reflected in the Audit Committee's Terms of Reference and the reports as set out in the Forward Work Programme for the Committee.
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2017?	All allegations are taken seriously and investigated. Whilst issues are reported, they will be deemed significant where they can be substantiated and reflected in the Council's Annual Governance Statement if appropriate. In 2015/16 control issues surrounding Contract management were identified and as a result of significant input from the Managing Director and Corporate Management Team, together with Internal Audit these issues have now been addressed. A comprehensive training programme has been rolled out for Senior Management covering contract and procurement training together with Project Management training. There has been no indication that fraud is evident within the system.	All allegations are taken seriously and investigated. Whilst issues are reported, they will be deemed significant where they can be substantiated and reflected in the Council's Annual Governance Statement if appropriate.

Matters in relation to laws and regulations

International Standard for Auditing (UK and Ireland) 250 covers auditor's responsibilities to consider the impact of laws and regulations in an audit of financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures in the financial statements.

As external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. The ISA distinguishes two different categories of laws and regulations:

- laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements;
- other laws and regulations where compliance may be fundamental to the continuance of operations, or to avoid material penalties.

What are we required to do?

As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the Council is in compliance with relevant laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Enquiries of management – in relation to laws and regulations

Question	2016-17 Response	2017-18 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	Through the work of the Council's Internal Audit Shared Service and Legal Services.	Through the work of the Council's Internal Audit Shared Service and Legal Services.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2017, or earlier with an ongoing impact on the 2017-18 financial statements?	No – not to our knowledge	No – not to our knowledge
3. Are there any potential litigations or claims that would affect the financial statements?	<i>WAO – the question was not raised here last year but confirmed in the letter of representation</i>	<i>No – Not to our knowledge</i>
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	<i>WAO – the question was not raised here last year</i>	<i>No – Not to our knowledge</i>

Enquiries of the Audit Committee – in relation to laws and regulations

Question	2016-17 Response	2017-18 Response
1. How does the Audit Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	Through the work of the Council's Internal Audit Shared Service. In addition the Council has robust Contract and Financial Procedure Rules in place.	Through the work of the Council's Internal Audit Shared Service. In addition the Council has robust Contract and Financial Procedure Rules in place.
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	No – not to our knowledge	No – not to our knowledge
3. If there have been instances of non-compliance what are they, and what oversight has the Audit Committee had to ensure that action is taken by management to address and gaps in control?	N/A	N/A

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK and Ireland) 550 covers auditor's responsibilities relating to related party relationships and transactions.

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

As part of our risk assessment procedures, we are required to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Enquiries of management – in relation to related parties

Question	2016-17 Response	2017-18 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none">• the identity of any related parties, including changes from the prior period;• the nature of the relationships with these related parties;• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.	<p>Yes, related parties have been disclosed and accounted for in the accounts</p>	<p>Yes, related parties have been disclosed and accounted for in the accounts</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Regular discussion with Accountants and finance staff to identify related parties and put together the required disclosures.</p>	<p>Regular discussion with Accountants and finance staff to identify related parties and put together the required disclosures.</p>

Enquiries of the Audit Committee – in relation to related parties

Question	2016-17 Response	2017-18 Response
1. How does the Audit Committee in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transactions and relationships?	Related party disclosures are reviewed by Audit Committee.	Related party disclosures are reviewed by Audit Committee.