

Meeting of:	<b>Audit Committee</b>
Date of Meeting:	<b>Thursday, 24 September 2020</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Audit Wales - Audit Enquiries to those Charged with Governance and Management
Purpose of Report:	To inform members of the information provided to Audit Wales as part of the Annual Audit of Accounts
Report Owner:	Rob Thomas, Managing Director
Responsible Officer:	Carys Lord, Head of Finance / Section 151 Officer
Elected Member and Officer Consultation:	No Elected Members have been consulted
Policy Framework:	The proposals in this report are in accordance with the policy framework and budget
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>• Audit Wales, in its audit of the Council's financial accounts for the year ended 31st of March 2020 is required to conduct the audit in accordance with the requirements set out in international standards of auditing (ISA's)</li> <li>• as part of the requirements of the ISA's Audit Wales wrote to the Head of Finance seeking views on a number of governance areas impacting upon the audit of the accounts relevant to both management and "those charged with governance"</li> <li>• Those areas of governance where views were sought are identified in Annex A along with the Council's response and encompass :</li> <li>• Matters in relation to fraud - Appendix 1 ;</li> <li>• Matters in relation to laws and regulations - Appendix 2 ; and</li> <li>• Matters in relation to related parties - Appendix 3</li> </ul>	

## **Recommendations**

1. That Audit Committee received this report for information and note the contents

## **Reasons for Recommendations**

1. In order to make Audit Committee aware of the process and the arrangements in place

### **1. Background**

- 1.1 Audit Wales in its audit of the Councils financial accounts for the year ended 31st March 2020 is required to conduct the audit in accordance with the requirements set out in International Standards of Auditing (ISA's)
- 1.2 As part of the requirement of the ISA's Audit Wales seeks views on a number of governance areas impacting upon the audit of accounts relevant both management and "those charged with governance".

### **2. Key Issues for Consideration**

- 2.1 Those areas of governance where views were sought are identified in appendices one to three along with the Councils response and encompass
  - Matters in relation to fraud - Appendix 1
  - Matters in relation to laws and regulations - Appendix 2
  - Matters in relation to related parties - Appendix 3
- 2.2 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.
- 2.3 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.
- 2.4 External auditors 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.

- 2.5** International Standard for Auditing (UK and Ireland) 550 covers auditors 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.
- 2.6** Because related parties are not independent of each other, many financial reporting frameworks established 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.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** Providing this information helps to demonstrate how the Council ensures that laws and regulations are complied with including the Well Being of Future Generations Act which sets out the five ways of working.

## **4. Resources and Legal Considerations**

### **Financial**

- 4.1** There are no direct resource implications as a result of this report.

### **Employment**

- 4.2** There are no direct employment consequences as a result of this report.

### **Legal (Including Equalities)**

- 4.3** International Standard for Auditing (UK and Ireland) 240 covers auditor's responsibilities relating to fraud in an audit of financial statements .
- 4.4** 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
- 4.5** International Standard for Audit in (UK and Ireland )550 covers auditor's responsibilities relating to related party relationships and transactions

## **5. Background Papers**

Annex A : Vale of Glamorgan Council 2019 / 20 - Audit enquiries to those charged with governance and management

Carys Lord  
Head of Finance  
Vale of Glamorgan Council  
Civic Offices  
Holton Road  
Barry

Reference	
Date	4 May 2019
Pages	1 of 11

Dear Carys

**Vale of Glamorgan Council 2019/20 - Audit enquiries to those charged with governance and management**

Our 2020 Audit Plan notes we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It also sets out the respective responsibilities of auditors, management and those charged with governance.

This letter formally seeks documented consideration and understanding on a number of governance areas that impact on our audit of your financial statements. These considerations are relevant to both the management of the Vale of Glamorgan Council and 'those charged with governance' (the full Council, although in practice the Audit Committee may be better placed to comment on these matters).

I have set out below the areas of governance on which we are seeking views.

1. Management processes in relation to:
  - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud;
  - identifying and responding to risks of fraud in the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to those charged with governance the processes for identifying and responding to fraud.

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2. Management's awareness of any actual or alleged instances of fraud.
  3. How management gain assurance that all relevant laws and regulations have been complied with.
  4. Whether there is any potential litigation or claims that would affect the financial statements.
  5. Management processes to identify, authorise, approve, account for and disclose related party transactions and relationships.

The information you provide will inform our understanding of Vale of Glamorgan Council and its business processes and support our work in providing an audit opinion on your 2019-20 financial statements.

I would be grateful if you could complete the attached table in **Appendix 1**. Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 17 June 2020. In the meantime, if you have queries, please contact me on 02920 320664 or at [steve.wyndham@audit.wales](mailto:steve.wyndham@audit.wales).

Yours sincerely

Steve Wyndham  
Audit Manager

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## Appendix 1

### **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	Response
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>There have been no specific fraud issues identified during 2019/2020. The Head of Audit's Annual Opinion report provides satisfactory assurance with regards to the key financial systems.</p> <p>The issue of Fraud remains integral part of the Audit Committee remit. The Committee members 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 mis statements.</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>The Council's Internal Audit Shared Service has a key role in the identification of and responding to the risk of fraud. The Annual Audit Plan is based on risk and includes an annual review of key financial systems. Auditors are mindful of the potential presence of fraud when undertaking audits. All issues of possible fraud are reported and investigated by internal audit. Any matters of significance are reported to the Managing Director, Head of Finance and Corporate Management Team.</p> <p>The Council has an Investigation Officer who undertakes fraud awareness training as well as potential fraud investigations.</p>
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 be reflected in the level of assurance given at the end of the audit. Reports are taken to the Council's Corporate Management Team and Audit Committee highlighting where there is limited assurance and identifies if this impacts on the overall system of internal control.</p> <p>Audit committee also receives reports in relation to the number of complaints received and any whistleblowing incidents reported.</p>
4. How has management communicated expectations of ethical governance and standards of conduct and	<p>Principles of good governance and ethical behaviour are embedded in key policy documents including Codes of Conduct for Members and Employees. The Internal Audit service has a Code of Ethics which all auditors have to sign to state that they have read,</p>

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**Enquiries of management - in relation to fraud**

<b>Question</b>	<b>Response</b>
behaviour to all relevant parties, and when?	understood and will abide by the Code. An annual review of the Council's Governance Arrangements is undertaken by Internal Audit.
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2019?	No

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## Enquiries of the Audit Committee – in relation to fraud

Question	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.
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2019?	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.

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## Appendix 2

### **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.

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**Enquiries of management – in relation to laws and regulations**

<b>Question</b>	<b>Response</b>
1. How have you gained assurance that all relevant laws and regulations have been complied with?	Through the work of the Internal Audit Shared Services and Legal Services
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2019, or earlier with an ongoing impact on the 2019-20 financial statements?	No – not to our knowledge
3. Are there any potential litigations or claims that would affect the financial statements?	No – not to our knowledge
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No - not to our knowledge

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

Question	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 Internal Audit Shared Service. Also, through the application of Council policies, such as the Contract and Financial Procedure Rules
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	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?	No – not to our knowledge

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## 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.

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## Enquiries of management – in relation to related parties

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

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## Enquiries of the Audit Committee – in relation to related parties

Question	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