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| Meeting of:                              | <b>Governance and Audit Committee</b>   |
| Date of Meeting:                         | <b>Thursday, 23 September 2021</b>  |
| Relevant Scrutiny Committee:             | Corporate Performance and Resources   |
| Report Title:                            | <b>Review of Fraud and Governance as part of the External Audit by Audit Wales</b>  |
| Purpose of Report:                       | To present to those charged with governance with the responses provided to External Audit regarding Fraud and Governance for review.  |
| Report Owner:                            | Report of the Managing Director   |
| Responsible Officer:                     | Section 151 Officer   |
| Elected Member and Officer Consultation: | None  |
| Policy Framework:                        | The proposals in this report are in accordance with Policy Framework and Budget   |
| Executive Summary:                       | <p>To provide the Governance and Audit Committee with a copy of the detailed submission of the Council's response to the Audit Wales acting as the Council's External Auditor which relates to the requirements as set out in the International Standard for Auditing (UK and Ireland) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements</p> |

## **Recommendation**

1. That the contents of this report are considered by members of Governance and Audit Committee.

## **Reason for Recommendation**

1. To ensure that the members of the Governance and Audit Committee, as those charged with governance are aware of the assurances and have considered the responses attached at Appendix A.

## **1. Background**

- 1.1 Under the International Standard for Auditing 240 (ISA 240), the primary responsibility for preventing and detecting fraud rests with both management and “those charged with governance” which for the Vale is the County Council. This includes fraud that could impact on the accuracy of the annual accounts.

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

- 2.1 The ISA 240 requires the Council’s External Auditors to obtain an understanding of how the Council exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. Attached at Appendix A is the Council’s responses to the specific enquiries made by the External Auditor, Audit Wales, in order for them to obtain evidence of how management and those charged with governance are discharging their responsibilities.

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

- 3.1 The Council's budget and therefore its expenditure is incurred in order to achieve its corporate priorities as set out in the Corporate Plan 2020-2025 through the 4 well-being outcomes.

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

### **Financial**

- 4.1 The External Auditor’s responsibility to consider fraud in an audit of the financial statements are set out in the International Standard on Auditing (ISA).

## **Employment**

**4.2** None as a direct consequence of this report.

## **Legal (Including Equalities)**

**4.3** The ISA 240 requires the external auditor to obtain an understanding of how the Council exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them

## **5. Background Papers**

None

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

Date

07 April 2021

Dear Carys

**Vale of Glamorgan Council 2020-21 - Audit enquiries to those charged with governance and management**

Our 2021 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;

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- 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.
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 20-21 financial statements.

I would be grateful if you could complete the attached table in **Appendix 1**. For information purposes this table also includes the responses provided in 2019-20. Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance by 30 June 2021. In the meantime, if you have queries, please contact me on 02920 320500 or at [rachel.freitag@audit.wales](mailto:rachel.freitag@audit.wales).

Yours sincerely

Rachel Freitag

Audit Lead

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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   | 2019-20 Response   | 2020-21 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>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 misstatements.</p>   | <p>There have been no specific fraud issues identified during 2020/21. 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 Governance and 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 misstatements.</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 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> | <p>The Council's Regional Internal Audit 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> |
| <p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>  | <p>Any concerns regarding internal controls, fraud or misappropriation are reflected in Audit recommendations and will be reflected in the level of</p>  | <p>Any concerns regarding internal controls, fraud or misappropriation are reflected in Audit recommendations and will be reflected in the level of</p>  |

## Enquiries of management - in relation to fraud

| Question   | 2019-20 Response   | 2020-21 Response  |
|--|--|---|
|  | <p>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>            | <p>assurance given at the end of the audit. Reports are taken to the Council's Corporate Management Team and Governance and Audit Committee highlighting where there is limited assurance and identifies if this impacts on the overall system of internal control.</p> <p>Governance and Audit committee also receives reports in relation to the number of complaints received and any whistleblowing incidents reported.</p> |
| <p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p> | <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, understood and will abide by the Code.</p> <p>An annual review of the Council's Governance Arrangements is undertaken by Internal Audit.</p> | <p>Principles of good governance and ethical behaviour are embedded in key policy documents including Codes of Conduct for Members and Employees. The Regional Internal Audit Service has a Code of Ethics which all auditors have to sign to state that they have read, understood and will abide by the Code.</p> <p>The Council's Governance Arrangements is also included within the annual internal audit plan..</p>       |
| <p>5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2020?</p>                             | <p>No</p>  | <p>No</p>   |

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

| Question  | 2019-20 Response   | 2020-21 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 Governance and 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 2020?   | 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. | 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>2019-20 Response</b>   | <b>2020-21 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 | 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 2020, or earlier with an ongoing impact on the 2020-21 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?   | No – not to our knowledge   | 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   | No – not to our knowledge   |

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

| Question   | 2019-20 Response   | 2020-20 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 | 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  | 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  | 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   | 2019-20 Response   | 2020-21 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> | <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, finance and democratic services staff to identify related parties and put together the required disclosures.</p> | <p>Regular discussion with Accountants, finance and democratic services staff to identify related parties and put together the required disclosures. Further work to identify any related parties for close family relationships was carried out in 2020/21.</p> |

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

| Question   | 2019-20 Response  | 2020-21 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 Governance and Audit Committee as part of the review of the statement of accounts. |