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| Meeting of:  | <b>Shared Regulatory Services Joint Committee</b>  |
| Date of Meeting:   | <b>Tuesday, 28 September 2021</b>  |
| Relevant Scrutiny Committee:   | No Relevant Scrutiny Committee   |
| 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 the Accounts |
| Report Owner:  | Report of the Head of Finance / Section 151 Officer  |
| 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 Shared Regulatory Services financial accounts for the year ended 31st March 2021, is required to conduct the audit in accordance with the requirements set out in the International Standards for 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 view were sought are identified in Annex A along with the Council's response which encompasses: <ul style="list-style-type: none"> <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> </li> </ul> |  |

## Recommendation

1. That the Shared Regulatory Services Committee receive this report for information and note the contents therein.

## Reason for Recommendation

1. In order to make the Shared Regulatory Services Committee aware of the process and the arrangements in place.

## 1. Background

- 1.1 Audit Wales in its audit of Shared Regulatory Services financial statements for the year ended 31st March 2021 is required to conduct the audit in accordance with the requirements set out in International Standards of Auditing (ISA).
- 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 to 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 Shared Regulatory Services responses, which 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 Standards for Auditing (UK and Ireland) 240 covers auditor's responsibilities relating to fraud in an audit of financial statement. The primary responsibility to prevent and detect fraud rests with both management and those charged with governance, which for Shared Regulatory Services is the Shared Regulatory Committee. Management with the oversight of the Shared Regulatory Committee should ensure there is a strong emphasis on fraud prevention and deterrence, whilst creating a culture of honest and ethical behaviour, reinforced by active oversight by those charged with governance.
- 2.3 International Standards 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 Shared Regulatory Services Committee, is responsible for ensuring that Shared Regulatory Services operations are conducted in accordance with laws and regulations, including compliance with those that determine the reported amounts and disclosures within the financial statements.
- 2.4 External auditors are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to error or fraud, taking into account the appropriate legal and regulatory framework.

- 2.5 International Standard for Auditing (UK and Ireland) 550 covers auditor's responsibilities relating to party relationships and transactions, The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatements of the financial statements than transactions with unrelated parties.
- 2.6 As 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 of more risk factors are present as required by ISA (UK and Ireland) 240, as 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 Shared Regulatory Services ensures that laws and regulations are complied with, to include 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 resource implications 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 Auditing (UK and Ireland) 550 covers auditor's responsibilities relating to related party relationships and transactions.

### **5. Background Papers**

- 5.1 Annex A: Shared Regulatory Services 2020/21 - Audit enquiries to those charged with governance and management

**Annex A**

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Caerdydd / Cardiff CF11 9LJ  
Ffôn / Tel: 029 20 320500  
info@audit.wales / post@archwilio.cymru  
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Carys Lord  
Head of Finance  
Vale of Glamorgan Council  
Civic Offices  
Holton Road  
Barry

|           |               |
|-----------|---------------|
| Reference |               |
| Date      | 13 April 2021 |
| Pages     | 1 of 11       |

Dear Carys

**Shared Regulatory Services Joint Committee 2020/21 - Audit enquiries to those charged with governance and management**

Our 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 Joint Committee and 'those charged with governance' (the full Council as host body, although in practice the Joint 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 the SRS and its business processes and support our work in providing an audit opinion on your 2020-21 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 2021**. In the meantime, if you have queries, please contact me on 02920 320644 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 SRS is the Joint Committee. Management, with the oversight of the Joint 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 Joint 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 Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud

| Question   | 2020-21 Response   | 2019-20 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 the year.</p> <p>The Head of Audit's Annual Opinion report provides satisfactory assurance on the key financial systems.</p>   | <p>There have been no specific fraud issues identified during the year.</p> <p>The Head of Audit's Annual Opinion report provides satisfactory assurance on the key financial systems.</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 Regional Internal Audit Service plays a crucial part in both identification and responding to the risks of Fraud. The Regional Internal Audit Service 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 / or the Council's Investigation Officer 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 Senior Leadership Team</p> | <p>The Council's Internal Audit Shared Service plays a crucial part in both identification and responding to the risks of Fraud. The internal audit shared service 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 Team</p> |
| <p>3. What arrangements are in place to report fraud issues and risks to the Joint Committee?</p>  | <p>Any concerns regarding internal controls, fraud or misappropriation would be reported to the Joint Committee as well as the Vale of Glamorgan Governance and Audit Committee.</p>   | <p>Any concerns regarding internal controls, fraud or misappropriation would be reported to the Joint Committee as well as the Vale of Glamorgan Audit Committee.</p>  |
| <p>4. How has management communicated expectations of ethical governance and standards of conduct and</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. All elected members received training on the Code of Conduct for elected</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. All elected members received training on the Code of</p>  |

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| <b>Question</b>   | <b>2020-21 Response</b>                           | <b>2019-20 Response</b>   |
|---|---|---|
| behaviour to all relevant parties, and when?  | members following the local elections in May 2017 | Conduct for elected members following the local elections in May 2017 |
| 5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2020? | No  | No  |



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| Question   | 2020-21 Response   | 2019-20 Response   |
|--|--|--|
| <p>1. How does the Joint 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?</p> | <p>Oversight of the processes for identifying and response to the risk of fraud are contained within the Terms of Reference for the Governance and Audit Committee. Any issues for concern would be referred by the Governance and Audit Committee to the Joint Committee if appropriate</p> | <p>Oversight of the processes for identifying and response to the risk of fraud are contained within the Terms of Reference for the Audit Committee. Any issues for concern would be referred by Audit Committee to the Joint Committee if appropriate</p> |
| <p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?</p>   | <p>No</p>  | <p>No</p>  |

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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 Joint Committee, is responsible for ensuring that the SRS'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 Joint Committee as to whether the SRS 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.

| Question   | 2020-21 Response   | 2019-20 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 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  |

| Question   | 2020-21 Response  | 2019-20 Response   |
|--|---|--|
| 1. How does the Joint Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?                              | Any matters of significance are report to the Managing Director, Head of Finance and Senior Leadership Team in the Vale of Glamorgan. Where appropriate, these would then be reported to the Joint Committee. | Any matters of significance are report to the Managing Director, Head of Finance and Corporate management Team in the Vale of Glamorgan. Where appropriate, these would then be reported to the Joint Committee. |
| 2. Are you aware of any instances of non-compliance with relevant laws and regulations?  | No therefore no such reports have been raised in 2020/2021  | No therefore no such reports have been raised in 2019/2020   |
| 3. If there have been instances of non-compliance what are they, and what oversight has the Joint Committee had to ensure that action is taken by management to address and gaps in control? | Not applicable  | Not applicable   |

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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.

| Question   | 2020-21 Response  | 2019-20 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>Related parties have been disclosed within the Statement of Accounts, and are accounted for within the accounts.</p>   | <p>Related parties have been disclosed within the Statement of Accounts, and are accounted for within 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>The Head of the SRS completes a Declaration of Interest on an annual basis and this is lodged with the Director of Environment and Housing</p> <p>Elected members also complete a declaration of interest on an annual basis and this is retained within the Democratic Services unit of their Local Authority.</p> <p>No declarations have been made in 2020/2021</p> | <p>The Head of the SRS completes a Declaration of Interest on an annual basis and this is lodged with the Director of Environment and Housing</p> <p>Elected members also complete a declaration of interest on an annual basis and this is retained within the Democratic Services unit of their Local Authority.</p> <p>No declarations have been made in 2019/2020</p> |

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| <b>Question</b>  | <b>2020-21 Response</b>   | <b>2019-20 Response</b>   |
|--|---|---|
| 1. How does the Joint 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? | At the start of every Joint Committee all attendees are requested to declare any declarations of interest | At the start of every Joint Committee all attendees are requested to declare any declarations of interest |