



GOVERNANCE AND AUDIT COMMITTEE

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| Date Written | 8 th April 2021 |
| Report Author | Steve Jones |
| Exempt/Non Exempt | Non Exempt |
| Committee Date | 21 st June 2021 |

To: Chair, Ladies and Gentlemen

Audit Enquiries to those Charged with Governance and Management 2020/21

1.0 SUMMARY OF THE REPORT

- 1.1 Audit Wales must audit the Council's financial accounts for 2020/21 in compliance with International Standards of Auditing.
- 1.2 In response to Audit Wales' request the Council has indicated its views on a number of governance areas impacting upon the audit of accounts, relevant to both management and 'those charged with governance'.

2.0 RECOMMENDATIONS that

- 2.1 The Council's response to Audit Wales' request for information in respect of management and governance set out in Appendices 1 to 3 be noted.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 Audit Wales in its audit of the Council's financial accounts 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's).
- 3.2 As part of the requirements of the ISA's Audit Wales wrote to the Chief Finance Officer and Chair of Council (the Mayor) on 30th March 2021 seeking views on a

number of governance areas impacting upon the audit of accounts, relevant to both management and ‘those charged with governance’.

- 3.3 Those areas of governance where views were sought are identified in Appendixes 1 to 3 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
- 3.4 The information provided by the Council would assist Audit Wales in understanding the Council’s business processes and support its work in arriving at an audit opinion for the 2020/21 accounts.
- 3.5 The Council’s response to Audit Wales’ requirements is included as Appendixes 1 to 3 and is completed following consultation with the former Mayor as Chair of Council for 2020/21, the Cabinet Member for Governance and Corporate Services, Head of Legal and Democratic Services, Chief Finance Officer and Head of the Regional Internal Audit Service.

4.0 FINANCIAL IMPLICATION(S)

- 4.1 There are no financial implications associated with this report.

ELLIS COOPER
CHIEF EXECUTIVE

COUNCILLOR ANDREW BARRY
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

| BACKGROUND PAPERS | | |
|--|-----------------------------|--------------------------|
| Title of Document(s) | Document(s) Date | Document Location |
| MTCBC 2020/21 – Audit Enquiries to those Charged with Governance and Management | 30 th March 2021 | Finance Department |
| Does the report contain any issue that may impact the Council’s Constitution? | | No |

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors 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 Merthyr Tydfil County Borough Council is the Council. Management, with the oversight of those charged with governance, 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 those charged with governance exercises oversight of management's processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud and for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud

| Question | 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>Risk is low since budget monitoring statements are produced throughout the year involving a number of service accountants and service managers. Scrutiny and challenge undertaken by Chief Finance Officer, Budget Board and Cabinet. In addition, the base data required for the preparation of the financial statements is the responsibility of a number of inter Departmental officers. Chief Finance Officer reviews the completed Statement of Accounts. Also, the Regional Internal Audit Service provides an objective review of systems and procedures.</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>Counter fraud activity undertaken by the Regional Internal Audit Service.</p> <p>The Council's Internal Audit Activity and its work programme/work with management to raise their awareness of the risk of fraud.</p> <p>Reports to Governance and Audit Committee (member awareness and involvement) and officer attendance at Governance and Audit Committee to discuss areas of identified weakness or where fraud has been perpetrated and planned action/responses.</p> <p>Special investigation work undertaken by the Internal Audit Activity and also in conjunction with management and HR when deemed appropriate/required.</p> <p>Council constitution, financial procedure rules, procurement and contracting rules, policies and procedures e.g. Anti-Fraud and Corruption Policy, Whistleblowing Policy. Fraud related policies have been reviewed and are currently being updated.</p> <p>Service and Corporate risk registers.</p> <p>Codes of Conduct for staff and members.</p> <p>Induction training.</p> <p>Professionally qualified staff including Auditors and Accountants. Ongoing training and CPD.</p> <p>Access to technical materials/learning centres/shared resources e.g. CIPFA technical information service, Welsh Chief Auditor Group information network.</p> |

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| | <p>Networking with other LA internal audit and counter fraud services and sharing of information.</p> <p>Use of the National Anti-Fraud Initiative and the National Anti-Fraud Network.</p> <p>National Anti-Fraud Initiative data matching exercises.</p> <p>The Chief Accountant in preparing the Statement of Accounts co-ordinates the annual closure of account process and with the assistance of the Group Accountants is satisfied that the financial statements are not misstated. The Chief Finance Officer reviews the completed Statement of Accounts drawing on former 20 years of responsibility for completing the accounts to provide additional assurance.</p> |
| <p>3. What arrangements are in place to report fraud issues and risks to the those charged with governance?</p> | <p>Council policies and procedures e.g. Anti-Fraud and Corruption Policy, Whistleblowing Policy.</p> <p>Reports to Governance and Audit Committee (member awareness and involvement) and officer attendance at Governance and Audit Committee to discuss areas of identified weakness or where fraud has been perpetrated and planned action/responses.</p> <p>Governance and Audit Committee (work programme and reports etc).</p> <p>The Council's Internal Audit Activity.</p> <p>Reports published by the Internal Audit Activity.</p> <p>Special Investigation work and reports produced by the Regional Internal Audit Service. Regional Internal Audit Service Annual Report and Opinion.</p> <p>Annual Governance Statement.</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>A number of policy documents are available on the Council's intranet site, including:</p> <ul style="list-style-type: none"> • Employee Code of Conduct. • Staff Handbook. • Culture Statement. • Whistleblowing process and survey. • HR policies and procedures. |
| <p>5. Are you aware of any instances of actual, suspected or alleged fraud within the audited</p> | <p>All known or suspected fraud type activity that Internal Audit were/are aware of has been investigated, reported on where appropriate and records retained</p> |

body since 1 April 2020?

within the Regional Internal Audit Service. Although there have been individual investigations undertaken by the Regional Internal Audit Service, Management is unaware of any material level of fraud being committed. The Council is advised of any such incidents through:

- Regional Internal Audit Service annual report and opinion, including performance information on fraud investigations.
- Audit reports to Governance and Audit Committee in respect of fraudulent activity identified or suspected.
- Audit Wales and other external regulator reports.

Enquiries of those charged with governance – in relation to fraud

| Question | 2020-21 Response |
|---|---|
| <p>1. How does the Council, 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> | <ul style="list-style-type: none">• Audit Committee.• Scrutiny Committees.• Cabinet and Council reports and work programme.• Risk registers (Service and Corporate).• Internal Audit Activity providing assurance via its annual work programme, strategic work programme and annual report and opinion.• Providing framework/guidance documents e.g. corporate and departmental policies, procedures and rules (financial procedure rules). |
| <p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?</p> | <p>All known or suspected fraud type activity that Internal Audit were/are aware of has been investigated, reported on where appropriate and records retained within the Internal Audit Service. Although there have been individual investigations undertaken by Internal Audit the Council is unaware of any material level of fraud being committed.</p> <p>The Council is advised of any such incidents through:</p> <ul style="list-style-type: none">• Internal Audit annual report and opinion, including performance information on fraud investigations.• Audit reports to Audit Committee in respect of fraudulent activity identified or suspected.• WAO and other external regulator reports. |

Appendix 2

Matters in relation to laws and regulations

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

Management, with the oversight of those charged with governance, the Council is responsible for ensuring that Merthyr Tydfil County Borough 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; and
- 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 Council as to whether Merthyr Tydfil County Borough 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 | 2020-21 Response |
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| 1. How have you gained assurance that all relevant laws and regulations have been complied with? | The Annual Governance Statement requires officers with corporate wide skills, roles and responsibilities to comment on and demonstrate the effectiveness or otherwise of arrangements and controls in respect of corporate governance. This feeds into the Annual Governance Statement with significant impact from the Monitoring Officer and Chief Finance Officer. |
| 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? | Management is not aware of any non-compliance. |
| 3. Are there any potential litigations or claims that would affect the financial statements? | Management is not aware of any such events. |
| 4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | None. |

Enquiries of those charged with governance – in relation to laws and regulations

| Question | 2020-21 Response |
|--|--|
| <p>1. How does the Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?</p> | <p>All party Scrutiny Committees encompassing all Council services are held every 6 weeks based on a forward planning scrutiny programme and provide a robust challenge to Cabinet and officers. The Governance and Audit Committee held every 6 weeks also provides a degree of challenge and scrutiny.</p> <p>The Annual Governance Statement also provides assurance to the Council in respect of the effectiveness of its governance framework.</p> <p>There was a break in the frequency of Scrutiny and Audit Committees early in the pandemic, but they resumed as quickly as possible and now take place remotely.</p> |
| <p>2. Are you aware of any instances of non-compliance with relevant laws and regulations?</p> | <p>The Council is not aware of any such non-compliance.</p> |

Appendix 3

Matters in relation to related parties

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.

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 | 2020-21 Response |
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| <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; and• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions. | <p>All appropriate accounting and disclosures in respect of related parties will be disclosed to the auditor. Procedures and controls in respect of identifying members and senior officers' interests have been strengthened and are subject to a continuous process of review and further development.</p> |
| <p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p> | <p>Current disclosures within the audited annual Statement of Accounts include external relationships with the Welsh Government, levying bodies, jointly controlled operations and the Rhondda Cynon Taf Pension Fund. In addition, details in respect of members' allowances and senior officers' remuneration are also disclosed. Further controls in respect of members and senior officers' interests have been developed.</p> |

Enquiries of those charged with governance – in relation to related parties

| Question | 2020-21 Response |
|--|---|
| <p>1. How does the Council, 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?</p> | <p>Through the Scrutiny Committees forward work programmes and the Governance and Audit Committee responsible for reviewing the provisional Statement of Accounts in the July following the end of the financial year accounting period. As with management responses the process in respect of members and senior officers' interests is subject to continuous review in supporting further strengthening and development of procedures.</p> |