

Mr Richard Weigh – Chief Accountant
Mr Jason McClellan – Chair of the Corporate Governance Committee
Via email

Reference	AV/MJP/DCC
Date	23 March 2017
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Dear Richard and Councillor McClellan

Denbighshire County Council 2016/17

Audit enquiries to those charged with governance and management

In my 2017 Audit Plan, I note that I am responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. I also set 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 my audit of your financial statements. These considerations are relevant to both the management of the Council's management and 'those charged with governance' (the Corporate Governance Committee).

I have set out below the areas of governance on which I am 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.
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 Council and its business processes and support our work in providing an audit opinion on your 2016-17 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 2015-16.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance. If you have queries, please contact Michelle Phoenix on 07966 073281 or by e-mail at michelle.phoenix@audit.wales .

Yours sincerely

Anthony Veale
Engagement Director

Cc: Gary Williams - Head of Legal, HR and Democratic Services

Appendix 1

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

Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and ‘those charged with governance’, which for the Denbighshire County Council (the Council) is the Corporate Governance Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Corporate Governance Committee exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is ‘fraud’ in the context of the ISA?

The ISA views fraud as either:

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

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and the Corporate Governance Committee:

Enquiries of management		
Question	2015-16 Response	2016-17 Response
1. What is management’s assessment of the risk that the financial statements may be materially misstated due to	<ul style="list-style-type: none"> • Checks and balances in place within Finance and financial systems 	Low risk – reasons set out below:

Enquiries of management

Question	2015-16 Response	2016-17 Response
<p>fraud and what are the principal reasons?</p>	<ul style="list-style-type: none"> • Financial systems subject to annual internal audit reviews • Segregation of duties built into systems and procedures • Bank reconciliation process separate from other activity • Monthly closedown processes and robust budget monitoring and reporting • Well defined procurement processes – contract procedure rules • Delegation schemes and approval processes built into ordering and payment systems • Expenditure approval processes linked to the above – thresholds set within delegation schemes • Tight controls over journal processing • Treasury management policies and 	<ul style="list-style-type: none"> • Checks and balances in place within Finance and financial systems • All entries and notes within the published statements are subject to a tight control and checking process • Financial systems subject to annual internal audit reviews • Segregation of duties built into systems and procedures • Bank reconciliation process separate from other activity • Monthly closedown processes and robust budget monitoring and reporting • Well defined procurement processes – contract procedure rules • Delegation schemes and approval processes built into ordering and payment systems • Expenditure approval processes

Enquiries of management		
Question	2015-16 Response	2016-17 Response
	<p>procedures well established with clear segregation built into the investment and payment processes</p> <ul style="list-style-type: none"> • Minimal cash transactions • Professionally qualified and experienced staff • National Fraud Initiative (NFI) participation 	<p>linked to the above – thresholds set within delegation schemes</p> <ul style="list-style-type: none"> • Tight controls over journal processing • Treasury management policies and procedures well established with clear segregation built into the investment and payment processes • Minimal cash transactions • Professionally qualified and experienced staff • National Fraud Initiative (NFI) participation
<p>2. How can management assure the Corporate Governance Committee that it has not been inappropriately influenced by external pressures?</p>	<p>No specific financial outturn targets set by Welsh Government or other stakeholders. In addition, the following comments and processes support the assurance:</p> <ul style="list-style-type: none"> • Financial pressures and savings managed through the budget setting and monitoring procedures • Monthly reporting to Cabinet 	<p>No specific financial outturn targets set by Welsh Government or other stakeholders. In addition, the following comments and processes support the assurance:</p> <ul style="list-style-type: none"> • Financial pressures and savings managed through the budget setting and monitoring procedures • Detailed monthly financial reporting

Enquiries of management

Question	2015-16 Response	2016-17 Response
	<ul style="list-style-type: none"> • Budget setting procedures specifically refer to savings plans included in the budget • Council must set an annual balanced budget • Annual reporting on level of reserves – through MTFP and annual accounts. In addition, all in-year transfers to or from reserves are reported to Cabinet • No specific financial targets set by outside bodies • Compliance with constitution and financial regulations • Reporting of related party details annually in the Statement of Accounts 	<p style="color: red;">to Cabinet</p> <ul style="list-style-type: none"> • Budget setting procedures specifically refer to savings plans included in the budget • Council must set an annual balanced budget • Annual reporting on level of reserves – through MTFP and annual accounts. In addition, all in-year transfers to or from reserves are reported to Cabinet • No specific financial targets set by outside bodies • Compliance with constitution and financial regulations • Reporting of related party details annually in the Statement of Accounts • Assessment process (Strategic Investment Group) in place to test and approve capital investment

Enquiries of management		
Question	2015-16 Response	2016-17 Response
		recommendations/decisions
3. Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	<ul style="list-style-type: none"> • Management are aware of organisational pressures to meet budgets due to the financial constraints • Refer to points made in 2 above. • Management are regularly updated on the budget process and Medium Term Financial Plan through SLT and CET. 	<ul style="list-style-type: none"> • Management are aware of organisational pressures to meet budgets due to the financial constraints • Refer to points made in 2 above. • Management are regularly updated on the budget process and Medium Term Financial Plan through SLT and CET.
4. 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 has the following procedures in place, a number of which have been updated recently:</p> <ul style="list-style-type: none"> • Anti-fraud & corruption policy • Investigation procedures • Whistle-blowing policy • IA programme of work based on risk assessment • IA projects consider potential for 	<p>The Council has the following procedures in place and these are kept under regular review:</p> <ul style="list-style-type: none"> • Anti-fraud & corruption policy • Investigation procedures • Whistle-blowing policy • IA programme of work based on risk assessment • IA projects consider potential for

Enquiries of management		
Question	2015-16 Response	2016-17 Response
	<p>fraud and carry out appropriate tests</p> <ul style="list-style-type: none"> • Horizon scanning by the Head of Internal Audit to identify trends in frauds to develop a corporate fraud plan for 2015/16 • Financial systems reviews include annual data interrogation of payroll and creditor payments records • Systems and procedures/ checks and balances in Finance • Reporting benefit and CT fraud • National Fraud Initiative data matching and resulting investigations 	<p>fraud and carry out appropriate tests</p> <ul style="list-style-type: none"> • Horizon scanning by the Head of Internal Audit to identify trends in frauds to develop a corporate fraud plan • Financial systems reviews include annual data interrogation of payroll and creditor payments records • Systems and procedures/ checks and balances in Finance • Reporting benefit and CT fraud • National Fraud Initiative data matching and resulting investigations
<p>5. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p>Management has communicated expectations in respect of ethical governance and standards of conduct and behaviour via:</p> <ul style="list-style-type: none"> • References in the Constitution • Financial Regulations (recently updated) 	<p>Management has communicated expectations in respect of ethical governance and standards of conduct and behaviour via:</p> <ul style="list-style-type: none"> • References in the Constitution • Financial Regulations • Code of conduct (members and staff)

Enquiries of management		
Question	2015-16 Response	2016-17 Response
	<ul style="list-style-type: none"> • Code of conduct (members and staff) • Declaration of interests/related part declaration • Policies and procedures, financial procedures • Some services have specific codes of confidentiality / declarations of interest 	<ul style="list-style-type: none"> • Declaration of interests/related party declaration • Policies and procedures, financial procedures • Some services have specific codes of confidentiality / declarations of interest
<p>6. What arrangements are in place to report about fraud to those charged with governance?</p>	<ul style="list-style-type: none"> • Requirement to report to Head of Internal Audit and Section 151 Officer in Financial Regulations and Disciplinary • Corporate Governance Committee's terms of reference include requirement for annual report on fraud work • Internal Audit reports will raise issues as appropriate or escalate them for further formal investigation • Issues would also be raised in the 	<ul style="list-style-type: none"> • Requirement to report to Head of Internal Audit and Section 151 Officer in Financial Regulations and Disciplinary procedures • Corporate Governance Committee's terms of reference include requirement for annual report on fraud work • Internal Audit reports will raise issues as appropriate or escalate them for further formal investigation • Issues would also be raised in the

Enquiries of management

Question	2015-16 Response	2016-17 Response
	Annual Governance Statements if they identified a particular governance weakness	Annual Governance Statements if they identified a particular governance weakness

Enquiries of the Corporate Governance Committee

Question	2015-16 Response	2016-17 Response
<p>1. How does the Corporate Governance Committee, in its role as those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Council and the internal control that management has established to mitigate those risks?</p>	<p>The Corporate Governance Committee reviews policies in relation to fraud and whistle blowing and receive updates / reviews as appropriate.</p> <p>Specific instances of fraud would be reported to the Corporate Governance Committee either as part of the regular Internal Audit Progress Reports or as stand-alone items.</p> <p>Control weaknesses are reported to the Committee throughout the year and Members are able to call Officers to the Committee for explanations / assurances.</p>	<p>The Corporate Governance Committee reviews policies in relation to fraud and whistle blowing and receives updates / reviews as appropriate.</p> <p>Specific instances of fraud would be reported to the Corporate Governance Committee either as part of the regular Internal Audit Progress Reports or as stand-alone items.</p> <p>Control weaknesses are reported to the Committee throughout the year as part of the feedback from internal and external audit reviews and Members are able to call Officers to the Committee for explanations / assurances.</p>
<p>2. Has the Corporate Governance Committee knowledge of any actual, suspected or alleged fraud since 1 April 2016?</p>	<p>No issues of any actual or suspected fraud have been reported to the Corporate Governance Committee during the 2015-16 financial year.</p>	<p>No issues of any actual or suspected fraud have been reported to the Corporate Governance Committee during the 2016-17 financial year.</p>
<p>3. Has the Corporate Governance Committee any suspicion that fraud may be occurring within the organisation?</p>	<p>Any issues in respect of fraud would normally be investigated by Internal Audit and reported to the Corporate Governance Committee as part of their normal reporting procedures.</p>	<p>Any issues in respect of fraud would normally be investigated by Internal Audit and reported to the Corporate Governance Committee as part of their normal reporting</p>

Enquiries of the Corporate Governance Committee

Question	2015-16 Response	2016-17 Response
		procedures.
<p>4. Is the Corporate Governance Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details. If 'no' what are the risk areas?</p>	<p>The Committee receive regular reports on the effectiveness of internal controls which would include reference to segregation of duties if appropriate.</p>	<p>The Committee receive regular reports on the effectiveness of internal controls which would include reference to segregation of duties if appropriate.</p>
<p>5. How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?</p>	<p>A policy framework is in place in defining the roles and responsibilities of all staff in relation to fraud.</p> <p>In addition, in 2015-16 policies on Financial Regulations and Whistleblowing have been revised.</p>	<p>A policy framework is in place in defining the roles and responsibilities of all staff in relation to fraud.</p>
<p>6. From a fraud and corruption perspective, what are considered by the Corporate Governance Committee to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?</p>	<p>All posts have potential risks due to the nature of the Council's business. Although some posts will have specific risks such as access to bank accounts, cash receipting and contract awards. In this respect, the Council has specific controls in place for such posts which covers areas such as segregation of duties and specific levels of authorisation.</p>	<p>All posts have potential risks due to the nature of the Council's business. Although some posts will have specific risks such as access to bank accounts, cash receipting and contract awards. In this respect, the Council has specific controls in place for such posts which covers areas such as segregation of duties and specific levels of authorisation.</p>
<p>7. Is the Corporate Governance Committee aware of any related party relationships or transactions that could</p>	<p>The Committee receive notification of related party relationships as part of the approval of the statement of accounts</p>	<p>The Committee receive notification of</p>

Enquiries of the Corporate Governance Committee

Question	2015-16 Response	2016-17 Response
give rise to instances of fraud and how does the Corporate Governance Committee mitigate the risks associated with fraud related to related party relationships and transactions?	process. Any specific instances of fraud or suspected fraud in this respect would be reported under a separate report.	related party relationships as part of the approval of the statement of accounts
8. Is the Corporate Governance Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?-	The Committee is not aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading.	The Committee is not aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading.
9. Is the Corporate Governance Committee aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	The Committee is aware of the financial constraints faced by the Council. The Committee received regular budget update reports throughout the year which provides details of the level of savings that the Council is required to make and the plans as to how these savings will be achieved.	The Committee is aware of the financial constraints faced by the Council. The Committee received regular budget update reports throughout the year which provides details of the level of savings that the Council is required to make and the plans as to how these savings will be achieved.

International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non-compliance rests with management and 'those charged with governance', which for the Council is the Corporate Governance Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management and the Corporate Governance Committee:

Enquiries of management		
Question	2015-16 Response	2016-17 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<p>Senior officers are professionally qualified and are required to keep up to date with legislative and regulatory changes</p> <p>Committee reports make specific reference to the legislation in respect of the powers to make decisions.</p> <p>Reporting protocols require consultation with the S151 Officer and the Monitoring Officer.</p>	<p>Senior officers are professionally qualified and are required to keep up to date with legislative and regulatory changes</p> <p>Committee reports make specific reference to the legislation in respect of the powers to make decisions.</p> <p>Reporting protocols require consultation with the S151 Officer and the Monitoring Officer.</p>
2. Are there any potential litigations or claims that would affect the financial statements?	<p>This is reviewed as part of the final accounts closedown process. The Finance Department would liaise with the Legal Department to discuss any outstanding litigation and the financial impact thereon.</p> <p>Any financial impact would be considered as part of the Statement of Accounts process.</p>	<p>This is reviewed as part of the final accounts closedown process. The Finance Department would liaise with the Legal Department to discuss any outstanding litigation and the financial impact thereon.</p> <p>Any financial impact would be considered as part of the Statement of Accounts process.</p>

Enquiries of the Corporate Governance Committee		
Question	2015-16 Response	2016-17 Response

Enquiries of the Corporate Governance Committee		
Question	2015-16 Response	2016-17 Response
1. How does the Corporate Governance Committee, in its role as those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	The Corporate Governance Committee receive regular Internal Audit Progress Reports which includes control weaknesses identified in the Council's processes and procedures. Members of the Committee are able to call Officers to the Committee for explanations / assurances.	The Corporate Governance Committee receive regular Internal Audit Progress Reports which includes control weaknesses identified in the Council's processes and procedures. Members of the Committee are able to call Officers to the Committee for explanations / assurances.
2. Is the Corporate Governance Committee aware of any non-compliance with relevant laws and regulations?	No. The CGC is not aware of any non-compliance with relevant laws and regulations. Any such instances would be reported to the Committee.	No. The CGC is not aware of any non-compliance with relevant laws and regulations. Any such instances would be reported to the Committee.
3. If there have been instances of non-compliance what are they, and what oversight has the Corporate Governance Committee had to ensure that action taken by management to address and gaps in control?	There have been no instances of non-compliance.	There have been no instances of non-compliance.

International Standard for Auditing (UK and Ireland) 550 – Related parties

Background

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. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.

- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

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?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility 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. We are therefore making requests from both management and the Corporate Governance Committee:

Enquiries of management		
Question	2015-16 Response	2016-17 Response
1. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	<ul style="list-style-type: none"> • Declaration of interest forms and related party disclosure forms • Disclosures included within the statement of accounts (all reviewed by the Chief Accountant and Head of Finance) • Draft accounts reviewed by the CGC 	<ul style="list-style-type: none"> • Declaration of interest forms and related party disclosure forms • Disclosures included within the statement of accounts (all reviewed by the Chief Accountant and Head of Finance) • Draft accounts reviewed by the CGC

	<ul style="list-style-type: none"> • Policies and procedures previously outlined in respect of authorisation of any expenditure 	Policies and procedures previously outlined in respect of authorisation of any expenditure
<p>2. Confirm that you have:</p> <ul style="list-style-type: none"> • disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware; and • appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework. 	The Statement of Accounts discloses the identity of related parties and is compliant with the requirements of the CIPFA code of accounting practice.	The Statement of Accounts discloses the identity of related parties and is compliant with the requirements of the CIPFA code of accounting practice

Enquiries of the Corporate Governance Committee

Question	2015-16 Response	2016-17 Response
<p>1. How does the Corporate Governance 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 transaction sand relationships?</p>	<p>The Corporate Governance Committee receive the Statement of Accounts and seek assurances from officers regarding their accuracy. Members are able to challenge / query any aspect of the statement of accounts.</p>	<p>The Corporate Governance Committee receive the Statement of Accounts and seek assurances from officers regarding their accuracy. Members are able to challenge / query any aspect of the statement of accounts.</p>

