

Mr Richard Weigh – Chief Finance Officer (S151)  
Mr Barry Mellor – Chair of the Corporate Governance Committee  
*Via email*

Reference AV/MJP/DCC  
Date 16 March 2018  
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Dear Richard and Councillor Mellor

**Denbighshire County Council 2017/18**

**Audit enquiries to those charged with governance and management**

In my 2018 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 2017-18 financial statements.

I would be grateful if you could complete the attached tables in **Appendices 1-3**. For information purposes, where applicable, this table also includes the responses provided in 2016-17.

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](mailto:michelle.phoenix@audit.wales).

Yours sincerely

Anthony Veale  
Engagement Director

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

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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**

#### **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 - in relation to fraud

Question	2016-17 Response	2017-18 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>Low Risk – reasons set out below:</p> <ul style="list-style-type: none"> <li>• Checks and balances in place within Finance and financial systems</li> <li>• All entries and notes within the published statements are subject to a tight control and checking process</li> <li>• Financial systems subject to annual internal audit reviews</li> <li>• Segregation of duties built into systems and procedures</li> <li>• Bank reconciliation process separate from other activity</li> <li>• Monthly closedown processes and robust budget monitoring and reporting</li> <li>• Well defined procurement processes – contract procedure rules</li> <li>• Delegation schemes and approval processes built into ordering and payment systems</li> </ul>	<p>Low Risk – reasons set out below:</p> <ul style="list-style-type: none"> <li>• Checks and balances in place within Finance and financial systems</li> <li>• All entries and notes within the published statements are subject to a tight control and checking process</li> <li>• Financial systems subject to annual internal audit reviews</li> <li>• Segregation of duties built into systems and procedures</li> <li>• Bank reconciliation process separate from other activity</li> <li>• Monthly closedown processes and robust budget monitoring and reporting</li> <li>• Well defined procurement processes – contract procedure rules</li> <li>• Delegation schemes and approval processes built into ordering and payment systems</li> <li>• Expenditure approval processes linked to the above – thresholds set within delegation schemes</li> </ul>

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

Question	2016-17 Response	2017-18 Response
	<ul style="list-style-type: none"> <li>• Expenditure approval processes linked to the above – thresholds set within delegation schemes</li> <li>• Tight controls over journal processing</li> <li>• Treasury management policies and procedures well established with clear segregation built into the investment and payment processes</li> <li>• Minimal cash transactions</li> <li>• Professionally qualified and experienced staff</li> <li>• National Fraud Initiative (NFI) participation</li> </ul>	<ul style="list-style-type: none"> <li>• Tight controls over journal processing</li> <li>• Treasury management policies and procedures well established with clear segregation built into the investment and payment processes</li> <li>• Minimal cash transactions</li> <li>• Professionally qualified and experienced staff</li> <li>• National Fraud Initiative (NFI) participation</li> <li>• Internal Audit provides an objective review of financial systems and procedures.</li> </ul>
<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 has the following procedures in place and these are kept under regular review:</p> <ul style="list-style-type: none"> <li>• Anti-fraud &amp; corruption policy</li> <li>• Investigation procedures</li> <li>• Whistle-blowing policy</li> </ul>	<p>Council has the following procedures in place and these are kept under regular review:</p> <ul style="list-style-type: none"> <li>• Anti-fraud &amp; corruption policy</li> <li>• Investigation procedures</li> <li>• Whistle-blowing policy</li> <li>• IA programme of work based on risk assessment</li> </ul>

## Enquiries of management - in relation to fraud

Question	2016-17 Response	2017-18 Response
	<ul style="list-style-type: none"> <li>• IA programme of work based on risk assessment</li> <li>• IA projects consider potential for fraud and carry out appropriate tests</li> <li>• Horizon scanning by the Head of Internal Audit to identify trends in frauds to develop a corporate fraud plan</li> <li>• Financial systems reviews include annual data interrogation of payroll and creditor payments records</li> <li>• Systems and procedures/ checks and balances in Finance</li> <li>• Reporting benefit and CT fraud</li> <li>• National Fraud Initiative data matching and resulting investigations</li> </ul>	<ul style="list-style-type: none"> <li>• IA projects consider potential for fraud and carry out appropriate tests</li> <li>• Horizon scanning by the Head of Internal Audit to identify trends in frauds to develop a corporate fraud plan</li> <li>• Financial systems reviews include annual data interrogation of payroll and creditor payments records</li> <li>• Systems and procedures/ checks and balances in Finance</li> <li>• Reporting benefit and CT fraud</li> <li>• National Fraud Initiative data matching and resulting investigations</li> <li>• Internal Audit perform objective review of financial systems and procedures.</li> </ul>
3. What arrangements are in place to report fraud issues and risks to the Corporate Governance Committee?	<ul style="list-style-type: none"> <li>• Requirement to report to Head of Internal Audit and Section 151 Officer in Financial Regulations and Disciplinary procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Requirement to report to Head of Internal Audit and Section 151 Officer in Financial Regulations and Disciplinary procedures</li> </ul>

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

Question	2016-17 Response	2017-18 Response
	<ul style="list-style-type: none"> <li>• Corporate Governance Committee's terms of reference include requirement for annual report on fraud work</li> <li>• Internal Audit reports will raise issues as appropriate or escalate them for further formal investigation</li> <li>• Issues would also be raised in the Annual Governance Statements if they identified a particular governance weakness</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Governance Committee's terms of reference include requirement for annual report on fraud work</li> <li>• Internal Audit reports will raise issues as appropriate or escalate them for further formal investigation</li> <li>• Issues would also be raised in the Annual Governance Statements if they identified a particular governance weakness</li> <li>• Quarterly counter fraud updates to Corporate Governance Committee summarising progress with investigations and outcomes as part of Internal Audit update reports.</li> <li>• Internal Audit reviewed the Council's fraud management arrangements against CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Summary of the two reports highlighting fraud risks and issues were presented to Corporate Governance Committee as part of the Internal Audit update reports. Members also received a copy of the full reports separately.</li> </ul>

## Enquiries of management - in relation to fraud

Question	2016-17 Response	2017-18 Response
		<ul style="list-style-type: none"> <li>• Fraud risk is highlighted on the Corporate Risk Register and the Corporate Governance Committee is briefed on these periodically.</li> </ul>
<p>4. 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"> <li>• References in the Constitution</li> <li>• Financial Regulations</li> <li>• Code of conduct (members and staff)</li> <li>• Declaration of interests/related party declaration</li> <li>• Policies and procedures, financial procedures</li> <li>• Some services have specific codes of confidentiality / declarations of interest</li> </ul>	<p>Management has communicated expectations in respect of ethical governance and standards of conduct and behaviour via:</p> <ul style="list-style-type: none"> <li>• References in the Constitution</li> <li>• Financial Regulations</li> <li>• Code of conduct (members and staff)</li> <li>• Declaration of interests/related party declaration</li> <li>• Policies and procedures, financial procedures</li> <li>• Some services have specific codes of confidentiality / declarations of interest</li> <li>• E-learning modules are being rolled out to enhance staff awareness</li> </ul>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2017?</p>	N/A	<p>All known or suspected fraud that Internal Audit have been made aware of have been investigated, records maintained and Corporate Governance Committee are</p>



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

<b>Question</b>	<b>2016-17 Response</b>	<b>2017-18 Response</b>
		<p>updated quarterly as part of the Internal Audit progress update.</p> <p>Although there have been individual investigations carried out by Internal Audit, there have been no material level fraud identified.</p> <p>The National Fraud Initiative Exercise for 2016-17 has identified instances of fraud in relation to Council Tax (i.e. single persons discount and rising 18s) and relevant recovery action undertaken.</p>

**Enquiries of those charged with governance – in relation to fraud**

Question	2016-17 Response	2017-18 Response
<p>1. How does the Corporate Governance 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>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.</p>	<p>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.</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2017?</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>Update – Internal Audit update reports give quarterly updates of the actual, suspected or alleged fraud that Internal Audit is made aware of.</p>

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## 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 Corporate Governance 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 (the Corporate Governance 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.

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

Question	2016-17 Response	2017-18 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. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2017, or earlier with an ongoing impact on the 2017-18 financial statements?	N/A	No
3. 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>
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	N/A	No

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

<b>Question</b>	<b>2016-17 Response</b>	<b>2017-18 Response</b>
1. How does the Corporate Governance Committee in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	N/A	Through numerous reports throughout the year from both internal and external regulators and assurance provided through the governance framework underpinned by council standing orders, financial regulations and other key policies. The Annual Governance Statement also gives assurance in this regard.
2. Are you aware of any instances of 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.

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## 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	2016-17 Response	2017-18 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>The Statement of Accounts discloses the identity of related parties and is compliant with the requirements of the CIPFA code of accounting practice</p>	<p>The Statement of Accounts discloses the identity of related parties and is compliant with the requirements of the CIPFA code of accounting practice.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<ul style="list-style-type: none"> <li>• Declaration of interest forms and related party disclosure forms</li> <li>• Disclosures included within the statement of accounts (all reviewed by the Chief Accountant and Head of Finance)</li> <li>• Draft accounts reviewed by the CGC</li> </ul> <p>Policies and procedures previously outlined in respect of authorisation of any expenditure</p>	<ul style="list-style-type: none"> <li>• Declaration of interest forms and related party disclosure forms</li> <li>• Disclosures included within the statement of accounts (all reviewed by the Chief Accountant and Head of Finance)</li> <li>• Draft accounts reviewed by the CGC</li> <li>• Policies, procedures and controls around the authorisation of any expenditure are well controlled, as evidenced in regulatory reports.</li> </ul>

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

<b>Question</b>	<b>2016-17 Response</b>	<b>2017-18 Response</b>
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 transactions and relationships?	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.	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.  Independent assurance is provided by regulators supporting the robustness of internal control systems with respect to individual transactions.