



Neath Port Talbot
Castell-nedd Port Talbot
County Borough Council / Cyngor Bwrdeistref Sirol

Making a difference Gwahaniaeth i'r gwell

20th May 2015

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Mr Hywel Jenkins

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APPENDIX 1

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Mr. Richard Harries
Engagement Lead
Wales Audit Office
24 Cathedral Road
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Dear Mr. Harries

Neath Port Talbot County Borough Council 2014/15
Audit enquiries to those charged with governance and management

I refer to your letter of 31st March 2015 and enclose a copy of the completed questionnaire forwarded to Councillor James and myself.

In relation to the questionnaire I understand it has been prepared and forwarded to various public sector bodies and it should be noted that the Audit Committee has responsibility for some aspects of governance including sign off of the Statement of Accounts, which incorporates the Governance Statement.

Within the Council the following also have governance responsibilities: the Democratic Services Committee, the Standards Committee, Cabinet Boards and full Council (which approves the Constitution). You are also aware that specific officers have responsibilities in relation to governance matters.

Cont'd.....

We trust that this information is of assistance and clarifies the position for this Council.

Yours sincerely


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Chair of Audit Committee


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Director of Finance & Corporate Services

Appendix A

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 Council is the Audit 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 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 Audit Committee

Enquiries of management	
Question	Response
1) What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principle reasons?	Low – Internal controls in place in fundamental financial systems. They are audited each year, reviewed by Wales Audit Office (WAO) and reported to Audit Committee. Also

		<p>references are made to Whistleblowing Policy, Financial Regulations, Accounting Instructions, Contract Procedure Rules, Declarations of Interest & Hospitality.</p>
<p>2) How can management assure the Audit Committee that it has not been inappropriately influenced by external pressures?</p>	<p>Declarations of interest/hospitality, membership of professional bodies, Code of Conduct, Whistleblowing Policy, Independence of Internal Audit, reports to Audit Committee. S151 Officers Responsibility as set out in the Statement of Responsibilities included in the Statement of Accounts.</p>	
<p>3) Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>The Council is legally obliged to set a balanced budget. Monthly budget monitoring process identifies variations which includes review by senior managers and members.</p>	
<p>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>	<p>Internal Audit planned work, Whistleblowing Policy. Internal controls that exist in the various systems. National Fraud Initiative (NFI), monthly budget monitoring.</p>	
<p>5) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p>Code of Conduct, annual Declarations of Interest & Hospitality, Annual Governance Statement.</p>	
<p>6) What arrangements are in place to report about fraud to those charged with governance?</p>	<p>Quarterly reports to Audit Committee. All Internal Audit reports are copied to WAO, relevant Director and, as appropriate, the Chief Executive.</p>	

Enquiries of the Audit Committee

<p>1) How does the Audit 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 Committee receives details of all reports of Internal Audit work undertaken and can request further information as required. Approves the Audit Plan. Receives the Annual Internal Audit Report. Will make suggestions for items to be included in the plan. All Internal Audit reports include a risk rating.</p>
<p>2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud since 1 April 2014?</p>	<p>Yes, the Audit Committee is informed of instances of actual, suspected or alleged fraud.</p>
<p>3) Has the any Audit Committee suspicion that fraud may be occurring within the organisation?</p>	<p>Audit Committee is aware of the possibility of fraud occurring in such a large organisation but has not expressed any specific concerns.</p>
<p>4) Is the Audit 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>Yes, from the summary of findings of all audits and from the WAO opinion of the work of Internal Audit.</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>Whistleblowing Policy. Any and all concerns. Members of the public and staff make contact with Councillors who also refer issues on to management.</p>
<p>6) From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?</p>	<p>Audit Committee considers the risk assessment given to services included within the plan and that given to completed audits. The posts associated with the high risk services are therefore by association considered as high risk. Also consideration is given to the declarations made.</p>

<p>7) Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud and how does the Audit Committee mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Yes via the declarations of interest/hospitality, and the declarations made in the Statement of Accounts which are signed off by Audit Committee. Also, via Internal Audit reports and any specific work requested by Audit Committee.</p>
<p>8) Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?</p>	<p>No, if there were any they would be declared by the DFCS prior to the submission of the accounts. No such declaration has ever been necessary.</p>
<p>9) Is the Audit Committee aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>Budget monitoring arrangements are reported to Policy & Resources Cabinet Board and its Scrutiny Committee. Other Scrutiny Committees can and do request specific reports to be forwarded by management to them. There is no specific reporting to the Audit Committee other than at year end via the Statement of Accounts.</p>

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 Audit 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 Audit Committee.

Enquiries of management	
Question	Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	Officers are required to consult Legal Department on contentious/relevant issues when preparing reports; Directorate Management Teams can request Internal Audit to carry out specific reviews.
2) Are there any potential litigations or claims that would affect the financial statements?	None outstanding for 2014/15 other than those with financial provisions included within the Statement of Accounts. Potential judicial review applications re School closures could arise during 2015/16.
Audit Committee response	
1) How does the Audit 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 Audit Committee is not directly responsible for this. It is for each report submitted to the relevant Committee to comply with relevant laws etc.
2) Is the Audit Committee aware of any non-compliance with relevant laws and regulations?	No – but issues such as Judicial Reviews/Annual Ombudsman reports are submitted to relevant committees.
3) If there have been instances of non-compliance what are they, and what oversight has the Audit Committee had to ensure that action taken by management to address and gaps in control?	Not Applicable

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 summarizing 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 Audit Committee:

Enquiries of management	
Question	Response
1) What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	Policy on Declarations of Interest & Hospitality, requirements of Statement of Accounts.

<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. 	<p>These are built into the Statement of Accounts. Member Interests are displayed on Council website.</p> <p>Payment transactions are matched to Declarations. Annual Declaration of Interests returns are received from senior officers. Internal Audit Review and report on Declarations.</p>
<p>Enquiries of the Audit Committee</p> <p>1) How does the Audit Committee in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transaction and relationships?</p>	<p>The outcome of the audit work on Declarations of Interest/Hospitality is reported to Audit Committee.</p> <p>WAO report findings and any concerns on the Statement of Accounts to Audit Committee</p> <p>The DFCS and Audit Committee via the Chair signs off the Statement of Accounts having seen the results of the WAO review of the statements.</p>