

## 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:

<b>Enquiries of management</b>	
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 principal reasons?	Having taken steps to manage these risks with appropriate controls and having considered Internal Audit operations, we believe that the probability is low, as recorded in our corporate risk register.

2) How can management assure the Audit Committee that it has not been inappropriately influenced by external pressures?	Policies and arrangements are in place for appropriate declarations, etc.
3) Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	This question may be more appropriate for bodies other than Local Government. However, appropriate procedures are in place to operate within budgetary frameworks and constraints.
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?	Both management and Internal Audit manage with a risk-based approach. Also, Finance investigate significant variances.
5) How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	The Council's Constitution, including relevant policies and arrangements, is communicated via the intranet, and these are also included within staff induction training, and member training.
6) What arrangements are in place to report about fraud to those charged with governance?	The Head of Internal Audit's regular report to each Audit Committee includes a section which will report about fraud as appropriate, and where due legal process allows such reporting. Also, a working group of Councillors from the Audit Committee will scrutinise sensitive issues in more depth.

<b>Enquiries of the Audit Committee</b>	
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?	The Audit Committee approves both the annual financial statements and the Annual Governance Statement, which cover risks of fraud and the internal controls established. The Audit Committee also approved the Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy (including the Fraud Response Plan). The Audit Committee also oversees amendments to relevant parts of the Council's Constitution.
2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud since 1 April 2014?	The Audit Committee receives reports from Internal Audit about fraud, as appropriate, and where due legal process allows such reporting. No reports were received regarding any such frauds committed since 1 April 2014.
3) Has the Audit Committee any suspicion that fraud may be occurring within the organisation?	The accepted arrangement is for members of the Audit Committee to raise such suspicions with appropriate officers in the Finance Department. Members have not raised any such suspicions.
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?	Where the Audit Committee is not satisfied that internal controls are operating effectively, such matters are referred to the Committee's Working Group. Please see relevant Working Group reports to the Audit Committee for details.
5) How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?	Awareness of the Council's Whistleblowing Policy is raised by contact cards, details on the intranet and in the induction training.

<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>Controls (such as segregation of duties) are established to minimise risks relating to individual posts, and agents (such as the Pension Fund's asset managers), and appropriate insurance policies (fidelity guarantee) are in place regarding relevant posts.</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>Details of specific related parties are not reported to the Audit Committee, but the Committee is aware that the Finance Department takes appropriate action to identify such risks and transaction totals are reported in the statutory financial statements.</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.</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>The Audit Committee is aware that appropriate procedures are in place to operate within budgetary frameworks and constraints.</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:

<b>Enquiries of management</b>	
Question	Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	The Council employs appropriate professional officers for each relevant operational area, challenged as appropriate by leadership and independent reviews.
2) Are there any potential litigations or claims that would affect the financial statements?	Potential litigation could be pursued, such as equal pay claims but in each known case, appropriate provisions or reserves have been made, or where appropriate, contingent liabilities have been acknowledged accordingly.
<b>Enquiries of the Audit Committee</b>	
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 challenges and approves the Annual Governance Statement, setting out relevant management processes, and then receives regular reports from Internal Audit, including any serious non-compliance.

2) Is the Audit Committee aware of any non-compliance with relevant laws and regulations?	No, the Audit Committee is not aware of any serious non-compliance.
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?	n/a

## **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:

<b>Enquiries of management</b>	
Question	Response
1) What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	The Council complies with the relevant requirements of the Code, collecting appropriate declarations from elected members and chief officers, and transaction totals are reported in the statutory financial statements.
2) Confirm that you have: <ul style="list-style-type: none"> <li>• 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</li> <li>• appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>	Yes, detailed disclosures are supplied to the Council's external auditors.
<b>Enquiries of the Audit Committee</b>	
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 transactions and relationships?	The Audit Committee receives the draft accounts (subject to audit) and then approves the final financial statements which includes relevant information regarding related party transactions and relationships.