

1 Capital Quarter
Tyndall Street / Stryd Tyndall
Cardiff / Caerdydd
CF10 4BZ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Mr Chris Moore
Director of Corporate Services
Carmarthenshire County Council
County Hall
Carmarthen
SA31 1JP

Reference: CCC 22-23

Date issued: 30 March 2023

Dear Chris

Audit enquiries to those charged with governance and management

- The Auditor General's Statement of Responsibilities sets out that he is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It also sets 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 our audit of your financial statements. These considerations are relevant to both the management of the Council and 'those charged with governance' (Governance & Audit Committee).

I have set out below the areas of governance on which I am seeking your views:

- Matters in relation to fraud
- Matters in relation to laws and regulations
- Matters in relation to related parties

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 2022-23 financial statements.

I would be grateful if you could update the attached table in **Appendix 1** to **Appendix 3** for 2022-23.

The completed **Appendix 1** to **Appendix 3** should be formally considered and communicated to us on behalf of both management and those charged with governance by 30 June 2023. In the meantime, if you have queries, please contact Jason Blewitt on 07970737478 or jason.blewitt@audit.wales.

Yours sincerely



Derwyn Owen

Engagement Director

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements. This standard has been revised for 2022-23 audits.

The primary responsibility to prevent and detect fraud rests with both management and 'those charged with governance', which for the Council is the Governance & Audit Committee. 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, management's process for identifying and responding to the risks, and the internal controls established to mitigate them.

Enquiries of management – in relation to financial reporting

Question	2022-23 Response
<p>Are there any significant matters or events which have occurred during the year which could influence our audit approach or the Council's financial statements?</p>	<p>No</p>
<p>What are your general views on the entity's risk assessment process relating to financial reporting?</p>	<p>We believe we have a robust approach to the identification and evaluation of risks across the council, with risks clearly owned by an individual senior officer or department, but underpinned by a collegiate approach which brings to the benefits of cross functional support and expertise. This is applied to financial reporting, whereby the process is a joint effort of financial services combined with service managers across all areas, supported by back office functions</p>
<p>Are you aware of significant transactions that are outside the normal trading activities of the business?</p>	<p>No</p>
<p>Are you aware of any transactions, events or changes in circumstances that would cause impairments of non-current assets?</p>	<p>No. All surveys desktop reviews undertaken to date to identify RAAC have been negative (i.e. no RAAC identified)</p>

Enquiries of management – in relation to financial reporting

Question	2022-23 Response
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None other than those already disclosed to Audit Wales
Have there been any changes in accounting policies in relation to significant estimates?	No
Have there been any issues that may impact the preparation of the accounts identified so far?	Delays were encountered with enhanced requirements regarding the valuation of property assets to ensure that the carrying value was not materially different to the current value
Do you have knowledge of events or conditions beyond the period of the going concern assessment that may cast significant doubt on the entity's ability to continue as a going concern?	No, though we recognise the ongoing financial pressures which Local Authorities have faced for more than a decade and we are acutely aware of the increasing number of English Local Authorities which have issued Section 114 notices and are monitoring these closely.

Enquiries of management – in relation to fraud

Question	Response
<p>What is management's assessment of the risk that the financial statements may be materially misstated due to fraud? What is the nature, extent and frequency of management's assessment?</p>	<p>It is management's opinion that the risk of material misstatement of the financial statements due to fraud are low due to the checks and controls that are in place both inherent in processes as well as due to specific periodic activities such as the work carried out as part of the internal audit plan (e.g. identification of duplicate records in payroll or creditors).</p> <p>The Authority has an adequate and effective control environment in operation. There are clear Governance arrangements with defined Management responsibilities and Committee Structures in place and the control framework is generally sound and operated reasonably consistently. The Authority has an established Constitution, has developed Policies and approved Financial Procedure Rules that provide advice and guidance to all staff and members</p> <p>The Authority has an Internal Audit team with responsibility for providing ongoing fraud detection and prevention service covers all areas with the exception of "Benefit Fraud", which is a specialist Unit in the Revenues Unit of the Financial Services Division dealing with all Benefit Fraud.</p> <p>The Authority's Anti Fraud and Anti Corruption Strategy has been updated and was approved by the Audit Committee in October 2020 is available on the Authority's Intranet. The Anti Fraud and Anti Corruption Annual report was received</p>

Enquiries of management – in relation to fraud	
Question	Response
	<p>and accepted by the Committee in September 2023. Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received Fraud awareness training.</p> <p>The Authority participates in the "National Fraud Initiative", where data on Payroll, Creditors, Housing Benefit, Pensions, Insurance Claims, Blue Badges and VAT issues are matched nationally to identify potential individual frauds. The exercise reviewing data nationally across Local Authorities and other Public Sector Organisations was completed during 2022/2023.</p> <p>Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority.</p> <p>Internal Audit plan their work using risk assessment principles and taking into account changes in services. The adoption of a three year rolling programme provides assurance of the adequacy of audit coverage and allows the flexibility to deal with changes to systems within the Authority.</p> <p>During Autumn 2020, Fraud and Cyber Awareness training was provided by Dyfed Powys police for CMT, Executive Board Members and some Revenues & Financial Compliance staff. Internal Audit continues to provide training to a range of staff and awareness is raised on a</p>

Enquiries of management – in relation to fraud	
Question	Response
	<p>regular basis including staff newsletters, screensaver promotions and dedicated fraud intranet page.</p> <p>Processes implemented to enable remote working have continued to operate securely and officers have reviewed their effectiveness.</p>
<p>Do you have knowledge of any actual, suspected or alleged fraud affecting the audited body?</p>	<p>We are aware of a low number of either attempted/perpetrated fraud incidents. These are all of values below trivial and would not lead to misstatement. Further details can be found in the Anti Fraud and Anti Corruption Annual report presented to the Governance and Audit Committee on 29 September 2023.</p>
<p>What is management's process for identifying and responding to the risks of fraud in the audited body, including any specific risks of fraud that management has identified or that have been brought to its attention?</p>	<p>Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority.</p> <p>The Authority has an Internal Audit team with responsibility for providing ongoing fraud detection and prevention service covers all areas with the exception of “Benefit Fraud”, which</p>

Enquiries of management – in relation to fraud	
Question	Response
	<p>is a specialist Unit in the Revenues Unit of the Financial Services Division dealing with all Benefit Fraud.</p> <p>Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received Fraud awareness training. Staff from Internal Audit and People Management meet quarterly to confidentially keep up to date on any staffing issues or internal investigations to better identify potential financial impropriety or possible fraud</p>
<p>What classes of transactions, account balances and disclosures have you identified as most at risk of fraud?</p>	<p>We have a fraud risk register which has assessed the financial systems and the potential for fraud and the controls that are in place to mitigate fraud.</p>
<p>Are you aware of any whistleblowing or complaints by potential whistle blowers? If so, what has been the audited body's response?</p>	<p>The Standards Committee reviewed and confirmed the existing whistleblowing policy in June 2023. At the meeting, it was reported that during the financial year, 3 whistleblowing complaints had been received all of which had been investigated, and the investigations concluded.</p>

Enquiries of management – in relation to fraud

Question	Response
<p>What is management's communication, if any, to those charged with governance regarding their processes for identifying and responding to risks of fraud?</p>	<p>The Authority's updated Anti Fraud and Anti Corruption Strategy was approved by Audit Committee in October 2020.</p> <p>The Authority has a whistleblowing policy and updated its Code of Conduct for Members and Staff in May 2021. Following County Council elections in May 2022, training was held for all members on Code of Conduct, Ethics, Standards, Legal Duties and Responsibilities.</p> <p>Following the appointment of new lay members and new councillors to the Governance and Audit Committee, dedicated training was provided in 2022 which also outlined their responsibilities. We have also run a "self assessment" session with committee members to help identify any knowledge gaps/training requirements.</p> <p>In September 2020, the Governance and Audit Committee received and approved updated Contract Procedure Rules and Financial Procedure Rules, which were further updated and approved in September 2022 and September 2023.</p>

Enquiries of management – in relation to fraud

Question	Response
What is management's communication, if any, to employees regarding their views on business practices and ethical behaviour?	In addition to the response above: All staff are required to make an annual declaration of personal interests and are reminded of the Officers code of Conduct, Officers have received communication regarding CPRs and FPRs.

Enquiries of those charged with governance – in relation to fraud

Question	Response
Do you have any knowledge of actual, suspected or alleged fraud affecting the audited body?	The Annual Report from the designated Head of Audit to Audit Committee provides an opportunity to summarise issues relating to fraud or to report any individual cases

Enquiries of those charged with governance – in relation to fraud

Question	Response
	<p>which have reached a conclusion. Any significant case of fraud concluding during the year could form a separate Agenda Item to appraise the Committee of the facts of the individual case and advise of the control measures either already put in place or to be put in place to minimise the risk of any recurrence.</p> <p>The authority produced an annual Anti-Fraud and Corruption Report covering the financial year 2022-23, which was presented to the Governance and Audit Committee in September 2023. The Authority has a zero tolerance stance to all forms of fraud, corruption and theft, both from within the organisation and from external sources.</p> <p>The Anti-Fraud and Anti-Corruption Report provides a summary of the activities of the Council’s Anti-Fraud functions for the financial year.</p>
<p>What is your assessment of the risk of fraud within the audited body, including those risks that are specific to the audited body's business sector?</p>	<p>Fraud is recognised as a specific risk within the Corporate Risk Register</p> <p>With the scale and breadth of the Council’s range of services, it is impossible to eliminate the risk of fraud completely. However the control environment provides a high degree of assurance, combined with the activities undertaken to investigate instances of potential fraud, which has led to the discovery of a</p>

Enquiries of those charged with governance – in relation to fraud

Question	Response
	small number of incidents which have themselves been subject to prosecution or other sanctions where appropriate.
<p>How do you exercise oversight of:</p> <ul style="list-style-type: none">• management's processes for identifying and responding to the risk of fraud in the audited body, and• the controls that management has established to mitigate these risks?	<p>The Anti-Fraud and Corruption Report is received and reviewed annually. All internal audit reports where there is low assurance are required to be presented to the Governance and Audit Committee. This includes provision for reports where there are weaknesses which could or have led to fraud being exempt and discussed in camera, to enable an open discussion where issues can be fully explored and departments held to account.</p> <p>The Governance and Audit Committee is required to approve any changes to the financial and contract procedure rules, which provides the committee and opportunity to oversee the controls in place.</p>

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, 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 enquiries of management and those charged with governance 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	2022-23 Response
What are the policies and procedures in place to identify applicable legal and regulatory requirements to ensure compliance?	Code of Practice on Local Authority Accounting 2022/23, LAAP Bulletins reviewed, CIPFA/IPF training Courses. Audit Wales findings, Wales Chief Accountants Working Group, Specialist advice from Treasury Management Advisors.
Are you aware of any instances of non-compliance with laws or regulations? Is the entity on notice of any such possible instances of non-compliance?	No
What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?	As part of the statement of accounts preparation process, consideration is given to all ongoing litigation claims and assessments. This process involves the following senior officers: Assistant Chief Executive - People Management, Monitoring Officer (and deputy) Section 151 Officer (and deputy)
Have there been any examinations or inquiries performed by licensing, tax or other authorities/regulators?	During the year, the following inspections were undertaken – all were part of the normal course of business and were not in response to any specific issue:

Enquiries of management – in relation to laws and regulations

Question	2022-23 Response
	Estyn Local Government Education Services Inspection (July 2023) HMRC VAT Audit (concluded May 2023) Office of the Public Guardian – Deputyships inspection
Are there any potential litigations or claims that would affect the financial statements?	There is one matter which has already been discussed with Audit Wales that is subject to a legal process currently
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

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

Question	2022-23 Response
<p>Are you aware of any non-compliance with laws and regulations that may be expected to have a fundamental effect on the operations of the entity?</p>	<p>No</p>
<p>How does the Governance & Audit Committee, in your role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Monitoring Officer (Head of Administration & Law) is responsible for maintaining the Constitution to ensure that it reflects up to date legislative requirements and the Authority's Governance needs and is also responsible for ensuring that the provisions are fully complied with at all levels of the Authority's activities.</p> <p>As Chief Legal Officer supported by the in-house legal team, the Monitoring Officer has access to all meetings of the Authority including the Cabinet and the Authority's Corporate Management Team. The Monitoring Officer is well placed to play a proactive role in supporting Members and Officers in both formal and informal settings to comply with the law and with the Authority's own procedures.</p>

Enquiries of management – in relation to control environment and IT systems

Question	2022-23 Response
Have there been any changes to significant IT systems or applications in the period?	The organisation is in the process of implementing “Total Connect” which supports works across the council’s estate including administrative and operational buildings (including schools) and the council’s housing stock

Enquiries of management – in relation to risk and governance

Question	2022-23 Response
How do you communicate to those charged with governance regarding business risks including fraud?	Fraud training has been delivered to both the Corporate Management Team as well as the Governance and Audit Committee. It is also recognised as part of the Corporate Risk Register. Business risks are reported to the Governance & Audit Committee through the corporate risk register twice a year. The Corporate Management

Enquiries of management – in relation to risk and governance

Question	2022-23 Response
	<p>Team, Heads of Service and the Governance and Audit Committee also received training from an external provider on risk and risk appetite in Summer 2023. Cyber fraud / risk training was also delivered to members in November 2022.</p>
<p>What is the allocation of responsibilities between those charged with governance and management?</p>	<p>This is governed by the Council's constitution. Broadly, the separated in that it is Members who approve the Council's risk appetite, and then for officers who are responsible to implementing this in the business of the Council, and monitoring it, to then report back to Members.</p>
<p>What procedures are in place to ensure the compliance and completeness of Governance reports?</p>	<p>Preparation of the Annual Governance Statement is a collective effort of the Governance Group, comprising key senior officers as well as councillors in senior roles and is undertaken over a period of months. It is then considered in draft form by Chief Executive and members of the Governance and Audit Committee before presentation for approval</p>

Enquiries of management – in relation to risk and governance

Question	2022-23 Response
<p>What procedures are in place to ensure the compliance and completeness of Sustainability reports?</p>	<p>The Council declared a climate emergency in 2019, and committed to becoming a net zero authority by 2030. The Council since then has developed an action plan to respond to the emergency, and provides annual reports to Members outlining progress against the plan and towards delivering the Council's net zero ambition. A new cabinet portfolio of Climate Change, Decarbonisation and Sustainability has been created, who chairs the cross party climate change and nature advisory panel which provides oversight of the plan and advises Cabinet on its delivery.</p>

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK) 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	2022-23 Response
<p>Have there been any changes to related parties from the prior year? If so, what is the identity of the related parties and the nature of those relationships? Confirm these have been disclosed to the auditor.</p>	<p>There is one change which relates to a close family member of the Deputy Chief Executive. This is reported in the Statement of Accounts</p>
<p>What transactions have been entered into with related parties during the period? What is the purpose of these transactions? Confirm these have been disclosed to the auditor.</p>	<p>These have been disclosed in the Statement of Accounts</p>
<p>What controls are in place to identify, account for and disclose related party transactions and relationships?</p>	<p>An annual process is undertaken to identify related party transactions and relationships. This is led by the Head of Financial Services (Deputy Section 151 Officer).</p>
<p>What controls are in place to authorise and approve significant transactions and arrangements:</p> <ul style="list-style-type: none">• with related parties, and• outside the normal course of business?	<p>Where there is a related party identified, an approval is not undertaken by the officer affected. In very rare instances where there may be arrangements outside the normal course of business, it would be practice that the matter is escalated to a senior officer, and if significant, the relevant portfolio holder would be consulted. Advice would be sought from the Monitoring</p>

Enquiries of management – in relation to related parties

Question	2022-23 Response
	officer and Section 151 Officer on a case by case basis.

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

Question	2022-23 Response
<p>How does the Governance & 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?</p>	<p>In addition to the approval of the audited accounts as required in the council's constitution, the Governance and Audit Committee also holds a detailed accounts training session every year for members to go through the detailed updates of both the financial figures as well as the governance arrangements as set out in the Annual Governance Statement, and also received the draft accounts in formal committee. This member involvement creates a high level of engagement and discussion about updates which members may be aware of due to their other duties.</p>