

Archwilydd Cyffredinol Cymru Auditor General for Wales

24 Heol y Gadeirlan / Cathedral Road
Caerdydd / Cardiff CF11 9LJ
Ffôn / Tel: 029 20 320500
Ebst / Email: info@wao.gov.uk
www.wao.gov.uk

Reference

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

Dear Chris

Dyfed Pension Fund 2015-16

Audit enquiries to those charged with governance and management

As you will be aware I am required to conduct my financial audit in accordance with the requirements set out in International Standards on Auditing (ISAs). As part of the requirements of the ISAs I am writing to you to formally seek your 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 management and 'those charged with governance'.

I have set out below the areas of governance on which I am seeking your 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 of the processes for identifying and responding to fraud.

2. Management's awareness of any actual or alleged instances of fraud.

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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 Pension Fund's arrangements and business processes and support our work in providing an audit opinion on their 2015-16 financial statements.

I would be grateful if you could complete the attached table in Appendix 1, which should be formally considered and communicated to us on behalf of both management and those charged with governance by 31st August 2016. In the meantime, if you have queries, please contact me on (07792) 015416.

Yours sincerely

Jason Garcia
Audit Manager

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’. 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 Pension Fund 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 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 those charged with governance:

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?	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.

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. Risk Management and the Control Framework are sound and operated 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

The Authority has an Internal Audit team with responsibility for providing an 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.

The Authority's Anti Fraud and Anti Corruption Strategy 2011/2015 was approved by Audit Committee in 30th September 2011 and is available on the Authority's Intranet. 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.

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

	<p>across Local Authorities and other Public Sector Organisations was undertaken during 2013/14 and 2015/2016. Work will be completed for 2015/2016 matches.</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>Internal Audit continues to provide training to a range of staff. Fraud awareness is a key area covered as part of the training.</p>
<p>2) How can management assure those charged with governance that it has not been inappropriately influenced by external pressures?</p>	<p>There are clear Governance arrangements with defined Management responsibilities and Committee Structures in place. Risk Management and the Control Framework are sound and operated 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>3) Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>The global economy has been volatile and challenging over recent years which has impacted on the market value of the pension fund.</p> <p>Three year valuations are undertaken to ensure that the fund's value is scrutinised and any remedial timely action is undertaken.</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>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 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.</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>The Authority's Anti Fraud and Anti Corruption Strategy was approved by Audit Committee in</p>

	<p>30th September 2011 and is available on the Authority's Intranet</p> <p>The Authority has an established Code of Conduct for Members and Staff, and a whistleblowing policy.</p> <p>All staff are required to make an annual declaration of personal interests and are reminded of the Officers code of Conduct.</p>
6) What arrangements are in place to report about fraud to those charged with governance?	<p>The Annual Report from the designated "Head of Audit" (Audit & Risk Manager) to Audit Committee provides an opportunity to summarise issues relating to fraud or to report any individual cases 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>
Enquiries of those charged with governance	
1) How do those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Pension Fund and the internal control that management has established to mitigate those risks?	<p>Approval of the Anti Fraud and Anti Corruption Strategy 2011-2015 approved by Audit Committee in 30th September 2011. The Strategy sets out the Framework for detecting and dealing with fraud matters within the</p>

	<p>Council. Regular Audit Plan updates to Audit Committee, and reports on control issue identified during audits.</p>
<p>2) Have those charged with governance knowledge of any actual, suspected or alleged fraud since 1 April 2015?</p>	<p>Audit Committee is a public meeting so individual cases of “suspected fraud” cannot be discussed in such a forum. The Chair and Vice Chair of Audit Committee are provided with greater detail and day to day access to the Internal Audit Management Team. Details of suspected fraud would be shared “informally” with the Chair and Vice Chair i.e. outside of the Formal Committee Meeting.</p> <p>No instances of “Non Benefit Fraud” under investigation during 2015/16. Instances relating to 2016/17 and subsequent years will be discussed with the Chair and Vice Chair.</p>
<p>3) Have those charged with governance any suspicion that fraud may be occurring within the organisation?</p>	<p>All Members and employees have a responsibility to report Fraud and Corruption when they become aware of it. Under Financial Procedure Rules any suspected case of fraud or corruption by any officer or member must be reported to the Head of Audit, Risk and Procurement.</p> <p>Carmarthenshire County Council has a “Whistleblowing policy”, managed by the Monitoring officer. This policy enables employees to raise concerns and also safeguard</p>

	<p>their interests in line with the Public Interest Disclosure Act 1998.</p> <p>Staff and the public are able to report suspected Benefit Fraud including Housing and Council Tax Benefit fraud through the dedicated "Fraud Hotline".</p>
<p>4) Are those charged with governance 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</p> <p>Regular Audit Plan updates to Audit Committee, and proposed coverage for coming financial years. Reports on control issue identified during audits</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>The Authority's Whistleblowing policy sets out a working environment where Staff can feel confident to raise any concerns about malpractice within the Council. Malpractice can include fraud, corruption, bribery, dishonesty, financial irregularities, serious maladministration because of deliberate and improper conduct, unethical activities (which may be of a criminal nature) and dangerous acts or omissions which create a risk to health, safety or the environment, criminal offences, or failure to comply with a legal or regulatory obligation.</p> <p>The Whistleblowing Procedure is regularly monitored by a Whistleblowing Group and annual reports regarding whistleblowing are submitted to Standards Committee</p>

6) From a fraud and corruption perspective, what are considered by those charged with governance to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?

The Audit Committee rely on both Internal Audit and External Audit to undertake an ongoing comprehensive review of the Authority. Individuals controlling large amounts of money / cash or managing high value or attractive assets will naturally be seen as higher risk albeit controls should be more secure to prevent any abuse. The Internal Audit Plan is compiled using a Risk Based Approach which takes in to account issues such as value, nature of transaction, past problems etc.

The Pensions Administration section has an audit trail of all transactions via the workflow system in addition to the daily journals which record each key suppression. Staff members are restricted on access level by the software 'check pointing' facility. The pension fund participates in the NFI and additionally undertakes monthly mortality screening of pensioners and an annual screening of deferred members. The section has annual payroll and system audits by Carmarthenshire's audit team.

Any fraud identified would immediately be reported to Head of Financial Services and the Local Pension Board.

7) Are those charged with governance aware of any related party relationships or transactions that could give rise to instances of fraud and how does they mitigate the risks associated with fraud related to related party relationships and transactions?	All Related Party Transactions are disclosed in the statement of Accounts as confirmed in the letter of representation.
8) Are those charged with governance aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?·	No – the Letter of representation confirms that the financial statements are free of material misstatements, including omissions
9) Are those charged with governance aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?	Three Elected Members sit on the pension panel and are kept abreast quarterly on the global financial outlook and the performance/value of the pension fund.

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 both management and 'those charged with governance'. The ISA requires us, as external auditors, to obtain an understanding of how they gain 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 those charged with governance.

Enquiries of management	
Question	Response
1) How have you gained assurance that all relevant laws and regulations have been complied with?	Local Government Pension Scheme training courses and conferences run by the Local Government Chronicle and National Association of Pension Funds. Regulatory documents from the Department for Communities and Local Government.WAO findings
2) Are there any potential litigations or claims that would affect the financial statements?	No – covered in the letter of representation. Enquiries are made of the Assistant Chief Executive (HR) and the monitoring officer at year end, and again pre-publication of the statement to identify any potential post balance sheet date events. All known actual or possible litigation and claims whose effects should be considered when preparing

	the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.
Those charged with governance response	
1) How do those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	Reliance on Internal Audit, Letter of representation and WAO feedback
2) Are those charged with governance aware of any non-compliance with relevant laws and regulations?	No
3) If there have been instances of non-compliance what are they, and what oversight have those charged with governance had to ensure that action taken by management to address and gaps in control?	No

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 those charged with governance:

Enquiries of management	
Question	Response
1) What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	Enquires made of relevant officers and members for details of any potential related party transactions. Evidence subjected to audit by WAO.

	Confirmation given in the Letter of Representation that related party relationships and transactions have been appropriately accounted for and disclosed.
<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. 	Confirmation given in the Letter of Representation that related party relationships and transactions have been appropriately accounted for and disclosed
Enquiries of those charged with governance	
1) How do those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transaction sand relationships?	Disclosure made in the statement of Accounts which is approved by the Audit Committee, Letter of Representations and feedback from WAO.