

Mr Jon Haswell
Via email

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Dear Jon

Audit enquiries to those charged with governance and management – ERW

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 ISA requirements I am writing to you to formally seek your documented consideration and understanding on a number of the governance areas that impact on my audit of your financial statement.

These considerations are relevant to both the ERW's senior management, and 'those charged with governance' which for the purpose of the audit of the financial statements is deemed to be the Joint Committee.

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 ERW;
 - communication to employees of views on business practice and ethical behaviour; and
 - communication to those charged with governance on 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 ERW and its business processes and support our work in providing an audit opinion on the 2020-21 financial statements.

I would be grateful if you could complete the tables in Appendices 1 to 3, which should be formally considered and communicated to us on behalf of both management and those charged with governance by 20 July 2021.

In the meantime, if you have queries, please let me know.

Yours sincerely

A handwritten signature in black ink, appearing to read 'JCL.', with a small dot at the end.

Jeremy Saunders
Audit Manager

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK and Ireland) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both management and ‘those charged with governance’, which for the Council is the Audit Committee. Management, with the oversight of the Audit Committee, 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 the Audit Committee exercises oversight of management’s processes. We are also required to make enquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud, for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

Enquiries of management - in relation to fraud

Question	Previous Response	2020-21 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 due to adequate and effective controls in place. All financial systems independently reviewed by Internal Audit have received a substantial assurance rating during 2018-19.</p> <p>The Head of Internal Audit for each Partner Authority is required to undertake a review of compliance with the relevant grant scheme (RCSIG and PDG) and provide an assurance statement to ERW.</p>	<p>Low due to adequate and effective controls in place. All financial systems applicable to ERW are independently reviewed by PCC Internal Audit and have received a substantial assurance rating during 2020-21.</p> <p>The Head of Internal Audit for each Partner Authority is required to undertake a review of compliance with the relevant grant scheme (RCSIG and PDG) and provide an assurance statement to ERW.</p>
<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>PCC Internal Audit provide the Audit Service for ERW. During 2018-19 PCC adopted a new Counter Fraud, Corruption & Bribery Policy Statement and Strategy. Areas at high-risk of fraud are considered within the annual internal audit plan for ERW based on intelligence, e.g. Counter Fraud Tracker, CIPFA Counter Fraud Hub, etc. During 2018-19 Internal Audit has moved to quarterly CAATS work to ensure that any anomalies are promptly addressed – no material issues have been identified.</p>	<p>PCC Internal Audit provide the Audit Service for ERW. PCC Counter Fraud, Corruption & Bribery Policy Statement and Strategy in place. Areas at high-risk of fraud, including those due to Covid-19, are considered within the annual internal audit plan for ERW based on intelligence, e.g. Counter Fraud Tracker, CIPFA Counter Fraud Hub, Fraud alerts etc. Standard counter fraud work undertaken, e.g. NFI, Data Analytics. Membership of CIFAS for data matching purposes. Financial statements reviewed by PCC S151 Officer and Deputy S151 Officer.</p>

Enquiries of management - in relation to fraud

Question	Previous Response	2020-21 Response
	<p>Fraud alerts and issues highlighted through horizon scanning and networking are shared with management and considered for inclusion within the work plan. The draft financial statements are subject to a rigorous check and challenge by the Director of Resources and Head of Finance & Business Services.</p>	
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>The annual Internal Audit plan is approved by the Joint Committee. The final report and annual HOIA opinion is reported to the Joint Committee.</p> <p>New Financial Regulations approved in December 2018 and adopted by ERW Joint Committee in February 2019, requires any allegations of purported fraud or irregularity to be reported to the Section 151 Officer and the Head of Internal Audit. All S151 Officers across the region are aware of this requirement.</p>	<p>Annual internal audit plan for 2020-21 approved by the Joint Committee, with the final internal audit report for 2020-21 and the Head of Internal Audit Annual Opinion and Report for 2020-21 reported to the Joint Committee.</p> <p>PCC Financial Regulations, adopted by the Joint Committee, require any allegations of purported fraud or irregularity to be reported to the S151 Officer and the Head of Internal Audit. All S151 Officers of ERW partners aware of this requirement.</p>

Enquiries of management - in relation to fraud

Question	Previous Response	2020-21 Response
<p>4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?</p>	<p>ERW Code of Corporate Governance was approved by the Joint Committee 16 July 2018.</p> <p>Officer and Member Code of Conduct in place with their respective Local Authority.</p> <p>The Central Team are employed by PCC and are expected to comply with the Code of Conduct and other local policies which are covered during induction.</p> <p>Annual assurance from the Lead Chief Executive, Managing Director, Head of HR, Section 151 Officer and Monitoring Officer that employees and Members are adhering to policy and procedures and the Code of Conduct.</p> <p>Registers of Interest are collated centrally – this has been an area identified for improvement and included within the AGS 18-19.</p>	<p>ERW Code of Corporate Governance in place.</p> <p>PCC Officer Code of Conduct and other relevant policies and procedures in place for all ERW staff, which would be referenced in induction training.</p> <p>Members Code of Conduct in place for each ERW partner.</p> <p>Register of interests held by the ERW Central Team, with periodic reminder issued to declare any interests.</p>

Enquiries of management - in relation to fraud

Question	Previous Response	2020-21 Response
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2020?	No	No.

Enquiries of those charged with governance – in relation to fraud

Question	Previous Response	2020-21 Response
1. How does the Audit 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>New Financial Regulations adopted by the Joint Committee February 2019, which outlines the reporting arrangements to the Director of Resources (S151 Officer) and the Head of Internal Audit. Also new Counter Fraud, Corruption and Bribery Policy Statement and Strategy approved by PCC Audit Committee July 2018 which are referenced within the Financial Regulations.</p> <p>PCC Audit Committee approve and monitor the annual Counter Fraud Work Plan which covers financial systems applicable to ERW.</p>	<p>PCC Financial Regulations adopted by the Joint Committee, which outline the reporting arrangements to the S151 Officer and the Head of Internal Audit.</p> <p>PCC Counter Fraud, Corruption & Bribery Policy Statement and Strategy in place, which is referenced in the Financial Regulations.</p> <p>PCC Audit Committee approve and monitor the annual Counter Fraud Work Plan which covers financial systems applicable to ERW.</p> <p>The Joint Committee receives the Head of Internal Audit Annual</p>

Enquiries of those charged with governance – in relation to fraud

Question	Previous Response	2020-21 Response
	The Joint Committee receives the Head of Internal Audit Annual Assurance Opinion which feeds into the Annual Governance Statement. Any significant fraud or internal control risks are highlighted.	Assurance Opinion which feeds into the Annual Governance Statement. Any significant fraud or internal control weaknesses/risks are highlighted.
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?	No	No.

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 Audit 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 Audit 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	Previous Response	2020-21 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	<p>Oversight by the Executive Board and Joint Committee.</p> <p>ERW Joint Committee and Executive Boards require identification of legal and financial issues. Statutory Officers attend the Joint Committee meetings to provide professional advice.</p> <p>Membership of Professional Bodies, networking and horizon scanning used to identify upcoming issues.</p> <p>Regular correspondence with Welsh Government and WLGA.</p> <p>Statutory Officers and Lead Officers complete the annual assurance checklist.</p> <p>The Code of Practice on Local Authority Accounting in the UK is updated annually and complied with.</p>	<p>Oversight by the Executive Board and Joint Committee.</p> <p>The Joint Committee and Executive Board reports require identification of legal and financial issues. Statutory Officers attend the Joint Committee meetings to provide professional advice.</p> <p>Membership of Professional Bodies, networking and horizon scanning used to identify upcoming issues.</p> <p>Regular correspondence with Welsh Government and WLGA.</p> <p>The Code of Practice on Local Authority Accounting in the UK is updated annually and complied with.</p>
2. Have there been any instances of non-compliance or suspected non-	No.	No.

<p>compliance with relevant laws and regulations since 1 April 2020, or earlier with an ongoing impact on the 2020-21 financial statements?</p>		
<p>3. Are there any potential litigations or claims that would affect the financial statements?</p>	<p>The McCloud Judgement is outlined in the Contingent Liabilities note in the Statement of Accounts for 2018-19.</p>	<p>No.</p>
<p>4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?</p>	<p>No.</p>	<p>No.</p>

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

Question	Previous Response	2020-21 Response
<p>1. How does the Audit Committee, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Joint Committee oversee all financial and internal audit reports. Reports to the Executive Board and the Joint Committee require identification of legal and financial issues. Statutory Officers attend the Joint Committee meetings to provide advice.</p> <p>Internal Audit reviews consider compliance with laws and regulations, either as a particular risk (e.g., Data Protection), or as part of the annual review. The final report is issued to the Joint Committee.</p> <p>The Head of Internal Audit Annual Opinion is presented to the Joint Committee.</p> <p>Statutory Officers complete an annual assurance checklist which supports the AGS.</p> <p>Annual Governance Statement identifies any areas of non-compliance or areas requiring improvement. This</p>	<p>The Joint Committee receive all financial and internal audit reports.</p> <p>ERW Joint Committee and Executive Board reports require identification of legal and financial issues. Statutory Officers attend the Joint Committee meetings to provide professional advice.</p> <p>Internal Audit reviews consider compliance with laws and regulations, either as a particular risk (e.g., Data Protection), or as part of the annual review. The final internal audit report is reported to the Joint Committee.</p> <p>Head of Internal Audit Annual Opinion and Report is presented to the Joint Committee.</p> <p>Annual Governance Statement identifies any areas of non-compliance or areas requiring improvement. This is reviewed and approved by the Joint Committee</p>

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

Question	Previous Response	2020-21 Response
	is reviewed and approved by the Joint Committee	
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	No	No.

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	Previous Response	2020-21 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> • the identity of any related parties, including changes from the prior period; • the nature of the relationships with these related parties; • details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions. 	<p>Registers of Interest and Internal Audit review of Related Party Transactions. Area for improvement included within the AGS 2018-19.</p>	<p>Register of Interests.</p> <p>Internal Audit Reviews, where applicable.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>Code of Conduct for Members and Officers covers declarations of interest. Area for improvement included within the AGS 2018-19.</p> <p>Senior Management safeguards to protect against conflict of interests.</p> <p>Internal Audit undertake annual checks of related party transactions.</p>	<p>PCC Officer Code of Conduct and other relevant policies and procedures covering declaration of interest requirements.</p> <p>Members Code of Conduct in place for each ERW partner covering declaration of interest requirements.</p> <p>Senior management safeguards to protect against conflict of interests.</p>

		<p>Register of interests held by the ERW Central Team, with periodic reminder issued to declare any interests.</p> <p>Internal Audit Reviews, where applicable.</p>
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Enquiries of the those charged with governance – in relation to related parties

Question	Previous Response	2020-21 Response
<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 transactions and relationships?</p>	<p>Code of Corporate Governance approved by the Joint Committee July 2018.</p> <p>Codes of Conduct and declarations of interest requirements. Area for improvement identified in the AGS 2018-19.</p> <p>Internal Audit undertake annual checks to compare contract awards and creditor payments with Members declared interests (related party transactions).</p> <p>Annual review and approval of the Financial Statements and Annual Governance Statement by the Joint Committee.</p>	<p>ERW Code of Corporate Governance in place.</p> <p>PCC Officer Code of Conduct and other relevant policies and procedures covering declaration of interest requirements.</p> <p>Members Code of Conduct in place for each ERW partner covering declaration of interest requirements.</p> <p>Register of interests held by the ERW Central Team, with periodic reminder issued to declare any interests.</p> <p>Internal Audit Reviews, where applicable.</p> <p>Annual review and approval of the Financial Statements and Annual Governance Statement by the Joint Committee.</p>

