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Mr Jon Haswell
Via email

Reference:

Date issued: 10 January 2023

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 2021-22 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.

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	2021-22 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?	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. 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 RW.	<p>Low due to adequate and effective controls in place. All financial systems applicable to ERW are independently reviewed by PCC Internal Audit during 2021-22, with all systems receiving either a Substantial or Moderate assurance.</p> <p>Grant funding for 2021-22 was paid direct to Local Authorities, therefore the risk to the financial statements is considered low. PCC Internal Audit undertook a review of compliance for the relevant grant schemes to provide assurance to ERW.</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>PCC Internal Audit provide the Audit Service for ERW. PCC Counter Fraud, Corruption & Bribery Policy Statement and Strategy in place.</p> <p>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</p>	<p>No change from 2020-21 response. PCC Internal Audit continue to provide the Audit Service for ERW. PCC Counter Fraud, Corruption & Bribery Policy Statement and Strategy are in place.</p> <p>The annual internal audit plan for ERW undertaken by PCC Internal Audit team continues to consider the risks of fraud,</p>

Enquiries of management - in relation to fraud

Question	Previous Response	2021-22 Response
	<p>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>	<p>which are 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).</p> <p>Financial statements for ERW are reviewed by PCC/ERW S151 Officer and Deputy S151 Officer.</p>
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</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>	<p>Annual internal audit plan for 2021-22 was approved by ERW Statutory Officers, with the final internal audit report for 2021-22 presented to the ERW Statutory Officers.</p> <p>The Head of Internal Audit Annual Opinion and Report for 2021-22 to be presented 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.</p>

Enquiries of management - in relation to fraud

Question	Previous Response	2021-22 Response
		All S151 Officers of ERW partners aware of this requirement.
4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<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>	<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>
5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2021?	No	No.

Enquiries of those charged with governance – in relation to fraud

Question	Previous Response	2021-22 Response
<p>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>	<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 Assurance Opinion which feeds into the Annual Governance Statement.</p> <p>Any significant fraud or internal control weaknesses/risks are highlighted.</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 Assurance Opinion which feeds into the Annual Governance Statement.</p> <p>Any significant fraud or internal control weaknesses/risks are highlighted.</p>
<p>2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2021?</p>	<p>No.</p>	<p>No.</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 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	2021-22 Response
<p>1. How have you gained assurance that all relevant laws and regulations have been complied with?</p>	<p>Oversight by the Executive Board and Joint Committee. 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. Membership of Professional Bodies, networking and horizon scanning used to identify upcoming issues. Regular correspondence with Welsh Government and WLGA. 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. 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. Membership of Professional Bodies, networking and horizon scanning used to identify upcoming issues. Regular correspondence with Welsh Government and WLGA. The Code of Practice on Local Authority Accounting in the UK is updated annually and complied with.</p>
<p>2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021, or earlier</p>	<p>No.</p>	<p>No.</p>

with an ongoing impact on the 2021-22 financial statements?		
3. Are there any potential litigations or claims that would affect the financial statements?	No	No.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.	No.

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

Question	Previous Response	2021-22 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 receive all financial and internal audit reports. 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. 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>	<p>The Joint Committee usually receives all financial and internal audit reports but for 2021-22 the internal audit report was presented to the ERW Statutory Officers due to the Joint Committee only meeting once. ERW Joint Committee and Executive Board reports require identification of legal and financial issues.</p> <p>Statutory Officers attend the Joint Committee meetings to provide professional advice, and are consulted on all reports taken to the Joint Committee.</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 usually reported to the Joint Committee, see comment above.</p> <p>Head of Internal Audit Annual Opinion and Report is presented to the Joint Committee.</p>

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

Question	Previous Response	2021-22 Response
		Annual Governance Statement identifies any areas of non-compliance or areas requiring improvement. This 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	2021-22 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>Register of Interests. Internal Audit Reviews, where applicable</p>	<p>Register of Interests. 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>PCC Officer Code of Conduct and other relevant policies and procedures covering declaration of interest requirements. Members Code of Conduct in place for each ERW partner covering declaration of interest requirements. 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</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. Senior management safeguards to protect against conflict of interests.</p>

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

Question	Previous Response	2021-22 Response
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>ERW Code of Corporate Governance in place. PCC Officer Code of Conduct and other relevant policies and procedures covering declaration of interest requirements. Members Code of Conduct in place for each ERW partner covering declaration of interest requirements. Register of interests held by the ERW Central Team, with periodic reminder issued to declare any interests. Internal Audit Reviews, where applicable.</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. 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. Register of interests held by the ERW Central Team, with periodic reminder issued to declare any interests. Internal Audit Reviews, where applicable.</p> <p>Annual review and approval of the Financial Statements and Annual Governance Statement by the Joint Committee</p>

