

### Part 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 is the full Council. Management, with the oversight of Council, 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 Council exercises oversight of management’s processes. We are also required to make enquiries of both management and the Council 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	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>Management is content that the risk of the financial statements being materially misstated due to fraud is low. This is due to the following: -</p> <ul style="list-style-type: none"> <li>• The identification of potential fraud is built into audit work as a matter of course and the Internal Audit Section provides ad hoc advice to service areas on request or where necessary. Instances of fraud remain low.</li> <li>• The Purchase Ledger Team receives notifications of potential creditor fraud from the South Wales Creditor Group, which allows us to monitor these suppliers and raise awareness amongst payments staff. The Internal Audit Section also receives these notifications and where issues are identified relevant advice or guidance on best practice is issued.</li> <li>• We maintain a software package (AP Forensics) to monitor Purchase Ledger payments. This package identifies potential instances of fraud and error that are investigated prior to the release of funds.</li> <li>• We actively participate in the National Fraud Initiative (NFI) and have been recognised for our good practice in this area.</li> <li>• We have an effective system of internal control underpinned by Financial Regulations and Standing Orders for Contracts. Compliance is good with no material issues being identified.</li> <li>• We work closely with the DWP’s Single Fraud Investigation Service in respect of Housing Benefit fraud.</li> </ul>
<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>We have a number of key policies that are available on the Council’s Intranet including the following: -</p> <ul style="list-style-type: none"> <li>• Anti-Fraud, Bribery and Corruption Policy.</li> <li>• Anti-Money Laundering Policy.</li> <li>• Payment Card Industry Data Security Standard Policy.</li> <li>• Whistleblowing Policy.</li> <li>• IT Security Policy.</li> </ul>

**Enquiries of management - in relation to fraud**

Question	2020-21 Response
	<p>Any instances of alleged or suspected fraud are followed up and investigated. The number of instances are small and there have been no material matters that impact on the Financial Statements for the 2020/21 financial year.</p>
<p>3. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>One of the key functions of the Governance &amp; Audit Committee is to consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements. Regular reports are provided to keep Members updated. The Governance &amp; Audit Committee reviews the Corporate Risk Register on a regular basis and is able to request Officers attend as necessary if further information or reports are required on any specific matters.</p> <p>At its meeting on the 26<sup>th</sup> January 2021, the Audit Committee was presented with the Audit Wales report 'Raising Our Game – Tackling Fraud in Wales'. This was followed by a further report presented to the Governance &amp; Audit Committee on the 8<sup>th</sup> June 2021, which provided a position statement for Caerphilly CBC against the recommendations in the Audit Wales report. A further report will be presented to the Governance &amp; Audit Committee during the 2021/22 financial year in respect of the Council's Counter-Fraud Strategy and Action Plan.</p> <p>Updates are also provided to the Governance &amp; Audit Committee on the National Fraud Initiative (NFI). The latest report was considered on the 26<sup>th</sup> January 2021 and included details of the outcomes of the NFI exercise 2018/20 and forward plans for the NFI exercise in 2021.</p> <p>The Annual Governance Statement (AGS) for 2020/21 includes 4 priorities for the 2021/22 financial year, 2 of which are the following: -</p> <ul style="list-style-type: none"> <li>• The Council's Risk Management Strategy will be reviewed and updated as appropriate.</li> <li>• We will ensure that the Council's ability to mitigate cyber risk is effective given the escalating global threats. This will include the development of a Cyber Security Strategy.</li> </ul>

**Enquiries of management - in relation to fraud**

Question	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>The Council's Constitution contains formal codes of conduct that articulate the standards of ethical behaviour that are expected from both Members and Officers. These incorporate procedures for the disclosure of personal interests and offers of gifts and hospitality.</p> <p>Both Members and Officers are made aware of the personal conduct and disclosure requirements and they are available for reference on the Council's Intranet.</p> <p>All declarations of Member gifts and hospitality are reported to the Council's Standards Committee. For Officers a quarterly update is given to the Council's Governance &amp; Audit Committee.</p> <p>Customer Services standards have been introduced as standards of behaviour adopted by the Authority that all staff should be adhering to.</p> <p>Core Policies are provided to staff on induction into the Authority. Core policies are also available on the Authority's Intranet, including the following: -</p> <ul style="list-style-type: none"> <li>• Financial Regulations and Standing Orders.</li> <li>• Anti-Fraud, Bribery and Corruption Policy.</li> <li>• Human Resources Portal – Managing Performance and Code of Conduct.</li> <li>• Information Governance/Data Protection.</li> <li>• Whistleblowing Policy.</li> <li>• Code of Conduct for Officers and Members.</li> </ul>
<p>5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2020?</p>	<p>Nothing material.</p>
<p>6. Are you aware of any fraud within the NHS Wales Shared Services Partnership since 1 April 2020?</p>	<p>Not applicable.</p>

Enquiries of those charged with governance – in relation to fraud	
Question	2020-21 Response
1. How does the Council 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?	The Council has established a Governance & Audit Committee which has a range of responsibilities including consideration of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements.
2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2020?	Nothing material.

**Part 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 Council, 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 Council, 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	2020-21 Response
<p>1. How have you gained assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including the following: -</p> <ul style="list-style-type: none"> <li>• Corporate Management Team.</li> <li>• Directorate Management Teams.</li> <li>• Heads of Service.</li> <li>• Head of Legal Services &amp; Monitoring Officer.</li> <li>• Head of Financial Services &amp; S151 Officer.</li> <li>• Senior Information Risk Owner (SIRO).</li> <li>• Data Protection Officer.</li> <li>• Internal Audit.</li> <li>• External Audit.</li> <li>• Performance Management Framework.</li> </ul> <p>The Head of Legal Services &amp; Monitoring Officer and the Head of Financial Services &amp; S151 Officer routinely attend each formal meeting of the Corporate Management Team and they also attend all Cabinet meetings. Furthermore, the standard committee reporting procedure and report template requires these Officers to examine reports to the Executive for compliance with legal and procedural issues. The report template also includes a section on financial implications which is reviewed by the Head of Financial Services &amp; S151 Officer.</p> <p>In addition to the above, the Authority has a Deputy Monitoring Officer and a nominated Finance Manager will represent the Head of Financial Services &amp; S151 Officer when required. This ensures that adequate cover for these roles is in place during periods of sickness absence or annual leave.</p>
<p>2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2020, or earlier with an ongoing impact on the 2020-21 financial statements?</p>	<p>None.</p>

3. Are there any potential litigations or claims that would affect the financial statements?	None.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	The Council received a penalty of £11,743.74 from HMRC during the 2020/21 financial year in respect of an IR35 issue in a school.
5. Are you aware of any non-compliance with laws and regulations within the NHS Shared Services Partnership since 1 April 2020?	Not applicable.

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

Question	2020-2021 Response
1. How does the Council, in its role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	<p>The Council has established a Governance &amp; Audit Committee whose terms of reference comply with the latest CIPFA guidelines. These extend to monitoring and reviewing the adequacy of the Council's governance framework.</p> <p>A Corporate Governance Review Panel has also been established to oversee the compilation of the Annual Governance Statement (AGS), which is presented to both the Governance &amp; Audit Committee and Council as part of the Financial Statements. Membership of the Panel is as follows: -</p> <ul style="list-style-type: none"> <li>• Corporate Director for Education &amp; Corporate Services (Chair).</li> <li>• Head of Financial Services and S151 Officer.</li> <li>• Head of Legal Services &amp; Monitoring Officer.</li> <li>• Interim Head of Transformation.</li> <li>• SIRO/Head of Customer &amp; Digital Services.</li> <li>• Internal Audit Manager.</li> <li>• Cabinet Member for Performance, Economy &amp; Enterprise.</li> <li>• Chair of Governance &amp; Audit Committee.</li> </ul>

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

Question	2020-2021 Response
2. Are you aware of any instances of non-compliance with relevant laws and regulations?	None.

**Part 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	2020-21 Response
<p>1. Confirm that you have disclosed to the auditor:</p> <ul style="list-style-type: none"> <li>• the identity of any related parties, including changes from the prior period;</li> <li>• the nature of the relationships with these related parties;</li> <li>• details of any transactions with these related parties entered into during the period, including the type and purpose of the transactions.</li> </ul>	<p>The Authority is required to disclose material transactions with related parties i.e. bodies or individuals that can potentially control or influence the Authority, or to be controlled or influenced by the Authority. During the 2020/21 financial year, transactions and year-end balances of related parties arose as follows: -</p> <p><b>Welsh Government</b> – The Welsh Government has significant influence over the general operations of the Authority in respect of providing the statutory framework within which the Authority operates, providing the majority of funding in the form of revenue and capital grants, revenue support grant and NNDR. Details of revenue support grant and NNDR Pool transactions are summarised in Note 11 of the 2020/21 Draft Financial Statements.</p> <p><b>Precepts and Levies</b> - Note 9 of the Draft Financial Statements provides details of precepts collected on behalf of other organisations and amounts levied on the Authority by Joint Committees.</p> <p><b>Members</b> - Members of the Council have direct control over the Authority’s financial and operating policies. The total of Members allowances paid in 2020/2021 is shown in Note 16 of the Draft Financial Statements. During the year all but one of “declaration of interest” returns were received showing that there were no other material related party transactions identified involving these individuals.</p> <p><b>Chief Officers</b> - Details of chief officers’ emoluments are provided in Note 17 of the Draft Financial Statements. All “declaration of interest” returns were received from Directors which did not identify any other material related party transactions.</p> <p><b>Other Public Bodies (subject to common control by central government)</b> - The Authority has pooled budget arrangements with the Aneurin Bevan University Health Board in respect of the Gwent Frailty Project.</p> <p><b>Pension Contributions</b> - Employer contributions are made to the Teachers’ Pension Agency and the Greater Gwent (Torfaen) Pension Fund in respect of the Authority’s employees. Further details of amounts involved are shown in Note 13 of the Draft Financial Statements.</p>

	<p><b>Other Entities Controlled or Significantly Influenced by the Authority</b> - The Education Achievement Service (EAS) is a limited company that provides advisory and inspection services to the Local Education Authority and its schools. Activities of the company are funded by Caerphilly, Blaenau Gwent, Monmouthshire, Newport and Torfaen County Borough Councils. Further details are provided in Note 45 of the Draft Financial Statements.</p>
<p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>	<p>The Council's Democratic Services Team maintains registers of interest for all Members, which are updated routinely on an annual basis. Members are also advised to notify Democratic Services of any changes as they occur. The Register of Interests for each Member are available on the Council's website. In addition to this process Members and Seniors Officers are also asked by Corporate Finance to complete a 'Disclosure of Interest' form as part of the annual accounts process.</p> <p>Staff are also asked to disclose details of interests and gifts and hospitality. These are routinely reported to the Governance &amp; Audit Committee.</p>

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

Question	2020-21 Response
<p>1. How does the Council, 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>Necessary disclosures are included in the Financial Statements which are reviewed and endorsed by the Governance &amp; Audit Committee annually prior to Council consideration and approval.</p> <p>As mentioned above, the wider staff group is also asked to disclose details of interests and gifts and hospitality, with these being routinely reported to the Governance &amp; Audit Committee.</p>