

## **Audit Enquiries Checklist 2021/22**

### **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 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 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   | 2020-21 Response   | 2021-22 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.</p> <p>The Internal Audit Team have a comprehensive audit plan which incorporates the key financial systems and services provided by NCC; the transactions of which feed into the financial statements. The transactions are audited at an operational level on a sample basis throughout the year. No material errors or cases of fraud were identified during the 2020/21 audit work.</p> <p>The Council has Financial Regulations and Contract Standard Orders in place, which are to be adhered to across the authority. These regulations detail the financial control and supervision that is required, as well arrangements for budgeting and budgetary control/monitoring, banking arrangements including bank reconciliations and income reconciliations and audit arrangements.</p> <p>These monitoring arrangements are undertaken across finance including procurement, internal audit and accountancy staff. These arrangements are in place to keep the risk of fraud to a minimum</p> <p>Internal Audit were involved with counter fraud work in relation to Welsh Govt Covid 19 grants – no material frauds identified</p> | <p>Low.</p> <p>The Internal Audit Team have a comprehensive audit plan which incorporates the key financial systems and services provided by NCC on a cyclical basis; the transactions of which feed into the financial statements. The transactions are audited at an operational level on a sample basis throughout the year. No material errors or cases of fraud were identified during the 2021/22 audit work.</p> <p>The Council has Financial Regulations and Contract Standard Orders in place, which are to be adhered to across the authority. These regulations detail the financial control and supervision that is required, as well arrangements for budgeting and budgetary control/monitoring, banking arrangements including bank reconciliations and income reconciliations and audit arrangements.</p> <p>These monitoring arrangements are undertaken across finance including procurement, internal audit and accountancy staff. These arrangements are in place to keep the risk of fraud to a minimum</p> |
| <p>2. What processes are employed to identify and respond to the risks of fraud more generally and specific</p>  | <p>Established anti-fraud, bribery and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to combat money-laundering,</p>  | <p>Established anti-fraud, bribery and corruption arrangements provide a deterrent, promote detection, identify a clear pathway for investigation and encourage prevention. These include procedures designed to</p>   |

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

| Question  | 2020-21 Response  | 2021-22 Response  |
|---|---|---|
| risks of misstatement in the financial statements?  | the anti-fraud, bribery and corruption policy and the whistleblowing policy.  | combat money-laundering, the anti-fraud, bribery and corruption policy and the whistleblowing policy.   |
| 3. What arrangements are in place to report fraud issues and risks to the Audit Committee?  | <p>Fraud investigated by the Internal Audit team is reported to the Audit Committee, although due regard to DP Act needs to be considered along with the impact on any potential disciplinary process.</p> <p>No material fraud identified therefore nothing to report to the Governance and Audit Committee</p>  | No material fraud identified in 2021/22, therefore nothing to report to the Governance and Audit Committee.   |
| 4. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when? | <p>The Council has a Code of Governance that has seven key principles, this is outlined in the Annual Governance Statement which is updated annually. The Corporate Plan also outlines the values of the authority and outlines three values of expected behaviour. There is also an ethical governance framework which includes code of conduct for officers and members, which are reviewed, updated and tested for compliance; a protocol governing Member/Officer relations; a whistle blowing policy; register of personal interest and anti-fraud arrangements.</p> <p>There is mandatory training for new members on Code of Conduct and Governance as well as other training.</p> | <p>The Council has a Code of Governance that has seven key principles, this is outlined in the Annual Governance Statement which is updated annually. The Corporate Plan also outlines the values of the authority and outlines three values of expected behaviour. There is also an ethical governance framework which includes code of conduct for officers and members, which are reviewed, updated and tested for compliance; a protocol governing Member/Officer relations; a whistle blowing policy; register of personal interest and anti-fraud arrangements.</p> <p>There is mandatory training for new members on Code of Conduct and Governance as well as other training.</p> |
| 5. Are you aware of any instances of actual, suspected or alleged fraud within the audited body since 1 April 2021?                             | Yes – low key frauds investigated by Internal Audit – no significant or material frauds identified  | Yes – low key frauds investigated by Internal Audit – no significant or material frauds identified in 2021/22.  |

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

| Question   | 2020-21 Response | 2021-22 Response |
|--|------------------|------------------|
| 6. Are you aware of any fraud within any service organisations employed by the Council since 1 April 2021? | No               | No               |

**Enquiries of those charged with governance – in relation to fraud**

| Question   | 2020-21 Response  | 2021-22 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? | Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance. | Minutes of Cabinet, Scrutiny and Governance & Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance. |
| 2. Are you aware of any instances of actual, suspected or alleged fraud with the audited body since 1 April 2021?  | Yes – very low key – not significant or material.   | Yes – very low key – not significant or material. All less than £50k for 2021/22.   |

## **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   | 2020-21 Response  | 2021-22 Response  |
|--|---|---|
| 1. How have you gained assurance that all relevant laws and regulations have been complied with?   | The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which go through the democratic process which gives assurance on compliance. | The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which go through the democratic process which gives assurance on compliance. |
| 2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations since 1 April 2021, or earlier with an ongoing impact on the 2021-22 financial statements? | No.   | No.   |
| 3. Are there any potential litigations or claims that would affect the financial statements?   | Not aware of any in addition to those which are either detailed as provisions or contingent liabilities in the financial statements.  | Not aware of any in addition to those which are either detailed as provisions or contingent liabilities in the financial statements.  |
| 4. Have there been any reports from other regulatory bodies, such as HM Revenue and Customs which indicate non-compliance?   | No.   | No.   |
| 5. Are you aware of any non-compliance with laws and regulations within any service organisations since 1 April 2021?  | No.   | No.   |

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

| Question   | 2020-21 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>Minutes of Cabinet, Scrutiny and Governance &amp; Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.</p> | <p>Minutes of Cabinet, Scrutiny and Governance &amp; Audit Committee are reported through Council. The Chief Financial Officer and the Monitoring Officer are required to provide comments on all reports which gives assurance on compliance.</p> |
| <p>2. Are you aware of any instances of non-compliance with relevant laws and regulations?</p>   | <p>No</p>  | <p>No</p>  |

### **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   | 2021-22 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> | Yes, confirmed.  | Yes, confirmed.  |
| <p>2. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?</p>   | Related parties are disclosed in the annual financial statements. A signed declaration is requested from all senior officers on an annual basis to identify any related parties. This is the same is required for all elected members. | Related parties are disclosed in the annual financial statements. A signed declaration is requested from all senior officers on an annual basis to identify any related parties. This is the same is required for all elected members. |

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

| Question   | 2020-21 Response | 2021-22 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> | As above.        | As above.        |