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Meirion Rushworth
Head of Finance & Section 151 Officer
Newport City Council
Civic Centre
Newport
South Wales
NP20 4UR

Reference: NCC/GL/2022-23

Date issued: 17 July 2023

Dear Meirion,

Audit enquiries to those charged with governance and management

The Auditor General's Statement of Responsibilities sets out that he is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. It also sets out the respective responsibilities of auditors, management and those charged with governance.

This letter formally seeks documented consideration and understanding on a number of governance areas that impact on our audit of your financial statements. These considerations are relevant to both the management of Council and 'those charged with governance' (the Audit Committee).

I have set out below the areas of governance on which I am seeking your views:

1. Matters in relation to fraud

Audit enquiries to those charges with governance and management. Please contact us in Welsh or English / cysylltwch â ni'n Gymraeg neu'n Saesneg.

2. Matters in relation to laws and regulations
3. Matters in relation to related parties

The information you provide will inform our understanding of the Council and its business processes and support our work in providing an audit opinion on your 2022-23 financial statements.

I would be grateful if you could update the attached table in [Appendix 1 to Appendix 3](#) for 2022-23.

The completed [Appendix 1 to Appendix 3](#) should be formally considered and communicated to us on behalf of both management and those charged with governance before the completion of the audit. In the meantime, if you have queries, please contact me on 02920 829398 or gareth.lucey@audit.wales.

Yours sincerely,

Gareth Lucey

Audit Manager

Appendix 1

Matters in relation to fraud

International Standard for Auditing (UK) 240 covers auditors' responsibilities relating to fraud in an audit of financial statements. This standard has been revised for 2022-23 audits.

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 those charged with governance exercises oversight of management's processes. We are also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud, management's process for identifying and responding to the risks and the internal controls established to mitigate them.

Enquiries of management – in relation to fraud

Question	2022-23 Response
<p>1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud? What is the nature, extent and frequency of management's assessment?</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 2022/23 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>

Enquiries of management – in relation to fraud

Question	2022-23 Response
2. Do you have knowledge of any actual, suspected or alleged fraud affecting the audited body?	Yes – low key frauds investigated by Internal Audit – no significant or material frauds identified in 2022/23.
3. What is management's process for identifying and responding to the risks of fraud in the audited body, including any specific risks of fraud that management has identified or that have been brought to its attention?	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, the anti-fraud, bribery and corruption policy and the whistleblowing policy.
4. What classes of transactions, account balances and disclosures have you identified as most at risk of fraud?	The Benefits service has historically been an area more likely to see fraud. There is a dedicated Senior Investigator post within this service to help counteract this. The use of p-cards has also been an area which has seen greater risk of fraudulent activity.
5. Are you aware of any whistleblowing or complaints by potential whistle blowers? If so, what has been the audited body's response?	Some examples of low level potential fraud were raised to the Internal Audit team in 2022/23. All instances were investigated by the team, with no material frauds identified.

Enquiries of management – in relation to fraud

Question	2022-23 Response
6. What is management's communication, if any, to those charged with governance regarding their processes for identifying and responding to risks of fraud?	Any material fraud identified by the Internal Audit team would be reported to the Governance & Audit Committee, as appropriate. There was no material fraud identified during 2022/23 and, therefore, nothing was reported to the committee.
7. What is management's communication, if any, to employees regarding their views on business practices and ethical behaviour?	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.
8. For service organisations, have you reported any fraud to the user entity?	No known instances of fraud.

Enquiries of those charged with governance – in relation to fraud

Question	2022-23 Response
1. Do you have any knowledge of actual, suspected or alleged fraud affecting the audited body?	Yes – very low key – not significant or material.
2. What is your assessment of the risk of fraud within the audited body, including those risks that are specific to the audited body's business sector?	<p>The assessment of the risk of fraud is Low/Medium. There is a level of risk within any organisation in relation to fraud, however the following arrangements are in place to support controlling this risk:</p> <ul style="list-style-type: none">- Consideration of fraud within every Internal Audit review, via the assessment of the presence of key controls, including separation of duties.- Dedicated resource within the Internal Audit Plan to undertake investigation work.- A Senior Fraud Investigator based within the Benefits team. <p>Counter fraud arrangements within Local Government settings can often be a challenge, particularly given financial constraints, however these pragmatic arrangements provide a level of comfort over the risk of fraud.</p>

Enquiries of those charged with governance – in relation to fraud

Question	2022-23 Response
<p>3. How do you exercise oversight of:</p> <ul style="list-style-type: none">• management's processes for identifying and responding to the risk of fraud in the audited body, and• the controls that management has established to mitigate these risks?	<p>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.</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.

Audit enquiries to those charges with governance and management. Please contact us in Welsh or English / cysylltwch â ni'n Gymraeg neu'n Saesneg.

Management, with the oversight of those charged with governance, 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 enquiries of management and those charged with governance 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	2022-23 Response
1. Is the audited body in compliance with relevant laws and regulations? How have you gained assurance that all relevant laws and regulations have been complied with? Are there any policies or procedures in place?	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. In addition, audits undertaken by the Internal Audit team would potentially identify any instances where laws and regulations have not been complied with.
2. Have there been any instances of non-compliance or suspected non-compliance with relevant laws and regulations in the financial year, or earlier with an ongoing impact on this year's audited financial statements?	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.
4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Enquiries of management – in relation to laws and regulations

Question	2022-23 Response
5. Are you aware of any non-compliance with laws and regulations within service organisation since 1 April of the financial year?	No

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

Question	2022-23 Response
1. Are you aware of any non-compliance with laws and regulations that may be expected to have a fundamental effect on the operations of the entity?	No
2. How does the Audit Committee, in your role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	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. In addition, audits undertaken by the Internal

Audit enquiries to those charges with governance and management. Please contact us in Welsh or English / cysylltwch â ni'n Gymraeg neu'n Saesneg.

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

Question	2022-23 Response
	Audit team would potentially identify any instances where laws and regulations have not been complied with.

Appendix 3

Matters in relation to related parties

International Standard for Auditing (UK) 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	2022-23 Response
1. Have there been any changes to related parties from the prior year? If so, what is the identity of the related parties and the nature of those relationships? Confirm these have been disclosed to the auditor.	There have been no material changes to related parties compared with the prior year. The nature of related parties are fully disclosed within the Statement of Accounts.
2. What transactions have been entered into with related parties during the period? What is the purpose of these transactions? Confirm these have been disclosed to the auditor.	Any transactions with related parties have been disclosed as part of the Statement of Accounts.
3. What controls are in place to identify, account for and disclose related party transactions and relationships?	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. These returns are used to identify any transactions and balances that need to be disclosed as part of the Statement of Accounts.

Audit enquiries to those charges with governance and management. Please contact us in Welsh or English / cysylltwch â ni'n Gymraeg neu'n Saesneg.

Enquiries of management – in relation to related parties

Question	2022-23 Response
<p>4. What controls are in place to authorise and approve significant transactions and arrangements:</p> <ul style="list-style-type: none">• with related parties, and• outside the normal course of business?	<p>Authorisation and approving of any significant transactions are subject to the Council's standard governance and operating procedures and must adhere to the Council's financial regulations and contract standing orders. There are no separate controls that operate in regard to the arrangements outlined.</p>

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

Question	2022-23 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>The committee is aware of and has previously sought assurance regarding the Council's approach to identifying and disclosing related parties.</p>