

Mr David Powell, Strategic Director of Resources,  
County Councillor John G Morris, Chair of Audit Committee  
*Via email*

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<b>Pages</b>	1 of 14

Dear David and John

## **Powys Pension Fund 2015/16**

### **Audit enquiries to those charged with governance and management**

In my 2016 Audit Plan for the Pension Fund, I note that I am responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. I also set 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 my audit of Powys Pension Fund's financial statements. These considerations are relevant to both the management of Powys Pension Fund (the Pension Fund) and 'those charged with governance' (the Audit Committee).

I have set out below the areas of governance on which I am seeking 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 the organisation;
  - communication to employees of views on business practice and ethical behaviour; and
  - communication to those charged with governance 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 the Pension Fund and its business processes and support our work in providing an audit opinion on the Pension Fund's 2015-16 financial statements.

I would be grateful if you could complete the attached table in [Appendix 1](#). For information purposes this table also includes the responses provided in 2014-15 relating to the Pension Fund.

Your responses should be formally considered and communicated to us on behalf of both management and those charged with governance. If you have queries, please contact Phil Pugh on 02920 320645 or by e-mail at [phil.pugh@audit.wales](mailto:phil.pugh@audit.wales) .

Yours sincerely



Anthony Veale  
Engagement Lead

## Appendix 1

### International Standard for Auditing (UK and Ireland) 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements

#### Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and ‘those charged with governance’, which for Powys County Council (the Council) is the Audit Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Audit Committee exercises oversight of management’s processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is ‘fraud’ in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of the COUNCIL’s assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

#### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and the Audit Committee:

Enquiries of management		
Question	2014-15 Response	2015-16 Response
1. What is management’s assessment of the risk that the financial statements may be materially misstated due to	The risk that the Pension Fund’s financial statements are materially misstated due to fraud is low. This opinion is supported by:	The risk that the Pension Fund’s financial statements are materially misstated due to fraud is low. This opinion is supported by:

## Enquiries of management

Question	2014-15 Response	2015-16 Response
<p>fraud and what are the principal reasons?</p>	<ul style="list-style-type: none"> <li>• Published codes of conduct.</li> <li>• Robust policies on Conflict/ Declaration of Interest, Anti-fraud and Corruption, Bribery and Money Laundering.</li> <li>• Constitution-Updated Financial Procedural Rules and Contract Standing Orders.</li> <li>• Professionally trained Accountants and Auditors who are members of professional bodies with codes of ethics.</li> <li>• Annual oversight by Audit and Scrutiny Committees and the Powys Pensions Board.</li> <li>• All financial fundamental systems covered in Internal Audit programme. The Internal control mechanisms and the risk of fraud are considered in these risk based reviews.</li> <li>• Outcomes from those reviews give no cause for concern in terms of the risk of material fraud. Any area with an adverse opinion is reported to a sub group of the Audit Committee.</li> <li>• There have been no cases of fraud identified that would materially alter the financial statements in 2014/15.</li> <li>• Segregation of duties is in place.</li> </ul> <p>Risk Management is in place producing register of material risks.</p>	<ul style="list-style-type: none"> <li>• Published codes of conduct.</li> <li>• Robust policies on Conflict/ Declaration of Interest, Anti-fraud and Corruption, Bribery and Money Laundering.</li> <li>• Constitution-Updated Financial Procedural Rules and Contract Standing Orders.</li> <li>• Professionally trained Accountants and Auditors who are members of professional bodies with codes of ethics.</li> <li>• Annual oversight by Audit and Scrutiny Committees and the Powys Pensions Board.</li> <li>• All financial fundamental systems covered in Internal Audit programme. The Internal control mechanisms and the risk of fraud are considered in these risk based reviews.</li> <li>• Outcomes from those reviews give no cause for concern in terms of the risk of material fraud. Any area with an adverse opinion is reported to a sub group of the Audit Committee.</li> <li>• There have been no cases of fraud identified that would materially alter the financial statements in 2015/16.</li> <li>• Segregation of duties is in place.</li> </ul> <p>Risk Management is in place producing register of material risks.</p>

## Enquiries of management

Question	2014-15 Response	2015-16 Response
2. How can management assure the Audit Committee that it has not been inappropriately influenced by external pressures?	<p>In addition to the controls included above, due diligence is carried out, Powys Pensions Board scrutinise decisions. The S151 Officer is a Strategic Director reporting to the Chief Executive and has full authority to act to protect the interests of the Pension Fund and meet the requirements of relevant legislation.</p> <p>As required there is an independent Internal Audit Function. Head of Audit has effective functional reporting lines in accordance with the public Sector Internal Audit Standards.</p>	<p>In addition to the controls included above, due diligence is carried out, Powys Pensions Board scrutinise decisions. The S151 Officer is a Strategic Director reporting to the Chief Executive and has full authority to act to protect the interests of the Pension Fund and meet the requirements of relevant legislation.</p> <p>As required there is an independent Internal Audit Function. Head of Audit has effective functional reporting lines in accordance with the public Sector Internal Audit Standards.</p>
3. Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	<p>Not directly relevant to the Pension Fund. However, it is noted that revenue pressures experienced by participating bodies within the Pension Fund require that pension deficit funding strategies are determined within this context.</p>	<p>Not directly relevant to the Pension Fund. However, it is noted that revenue pressures experienced by participating bodies within the Pension Fund require that pension deficit funding strategies are determined within this context.</p>
4. 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>The Pension Fund utilises the Council's policies in place to respond to the risk of fraud such as whistleblowing, anti-fraud and corruption, bribery and money laundering.</p> <p>The Pension Fund as part of the Council, has a zero tolerance approach to fraud. Internal Audit investigate all potential cases of internal fraud. Those with reasonable</p>	<p>The Pension Fund utilises the Council's policies in place to respond to the risk of fraud such as whistleblowing, anti-fraud and corruption, bribery and money laundering.</p> <p>The Pension Fund as part of the Council, has a zero tolerance approach to fraud. Internal Audit investigate all potential cases of internal fraud. Those with reasonable</p>

## Enquiries of management

Question	2014-15 Response	2015-16 Response
	<p>suspicions are referred to the police in parallel with an internal disciplinary process.</p> <p>The prevention and detection of fraud is a consideration in the risk based Internal Audit planning process. All assignments activity seek to gain assurance that controls are in place to reduce opportunities for fraud. Further investigations are undertaken where these controls are not present or these is evidence of irregular activity.</p> <p>The Pension Fund utilises the Council's Corporate Fraud Unit to actively detect and investigate cases of fraud being perpetrated by service users. This protects the wider public purse.</p> <p>The Pension Fund is subject to the Council's Proceeds of Crime Act (POCA) arrangements which seeks to recover funds to compensate for the cost of the crime committed.</p> <p>All of these investigatory functions actively promote fraud awareness to prevent future crime occurring.</p> <p>The Pension Fund participates in the National Fraud Initiative that matches data with other public bodies to identify potentially fraudulent cases. In addition, the Council is a Member of the National Anti-Fraud Network (NAFN) who provide intelligence to help prevent and detect</p>	<p>suspicions are referred to the police in parallel with an internal disciplinary process.</p> <p>The prevention and detection of fraud is a consideration in the risk based Internal Audit planning process. All assignments activity seek to gain assurance that controls are in place to reduce opportunities for fraud. Further investigations are undertaken where these controls are not present or these is evidence of irregular activity.</p> <p>The Pension Fund utilises the Council's Corporate Fraud Unit to actively detect and investigate cases of fraud being perpetrated by service users. This protects the wider public purse.</p> <p>The Pension Fund is subject to the Council's Proceeds of Crime Act (POCA) arrangements which seeks to recover funds to compensate for the cost of the crime committed.</p> <p>All of these investigatory functions actively promote fraud awareness to prevent future crime occurring.</p> <p>The Pension Fund participates in the National Fraud Initiative that matches data with other public bodies to identify potentially fraudulent cases. In addition, the Council is a Member of the National Anti-Fraud Network (NAFN) who provide intelligence to help prevent and detect</p>

Enquiries of management		
Question	2014-15 Response	2015-16 Response
	fraud.	fraud.
5. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?	<p>There is a Code of Conduct Policy. And a declaration of interests procedure.</p> <p>The Council has effective policies on codes of Conduct for Officers and Members. These Policies were approved May 2011 and December 2013. These policies also apply to Pension Fund officers and representatives.</p>	<p>There is a Code of Conduct Policy. And a declaration of interests procedure.</p> <p>The Council has effective policies on codes of Conduct for Officers and Members. These Policies were approved May 2011 and December 2013. These policies also apply to Pension Fund officers and representatives.</p>
6. What arrangements are in place to report about fraud to those charged with governance?	<p>Regular meetings between investigatory functions and 151 Officer.</p> <p>Internal Audit report fraud cases to the IA Working Group on a quarterly basis. This group reports to the main Audit Committee and where necessary makes them aware of material matters.</p> <p>The Corporate Fraud Team periodically reports to the Audit Committee outlining performance and details of cases where applicable.</p>	<p>Regular meetings between investigatory functions and 151 Officer.</p> <p>Internal Audit report fraud cases to the IA Working Group on a quarterly basis. This group reports to the main Audit Committee and where necessary makes them aware of material matters.</p> <p>The Corporate Fraud Team periodically reports to the Audit Committee outlining performance and details of cases where applicable.</p>

### Enquiries of the Audit Committee

Question	2014-15 Response	2015-16 Response
<p>1. How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Council and the internal control that management has established to mitigate those risks?</p>	<p>This involves the reporting of Adverse Opinions to IA Subgroup. Material weakness in control are tracked by Members. Audit Committee also receive assurances from the WAO. Fraud Cases regularly reported to Committee.</p>	<p>This involves the reporting of Adverse Opinions to IA Subgroup. Material weakness in control are tracked by Members. Audit Committee also receive assurances from the WAO. Fraud Cases regularly reported to Committee.</p>
<p>2. Has the Audit Committee knowledge of any actual, suspected or alleged fraud since 1 April 2015?</p>	<p>No – not in relation to the Pension Fund.</p>	<p>No – not in relation to the Pension Fund.</p>
<p>3. Has the Audit Committee any suspicion that fraud may be occurring within the organisation?</p>	<p>No – not in relation to the Pension Fund.</p>	<p>No – not in relation to the Pension Fund.</p>
<p>4. Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details. If 'no' what are the risk areas?</p>	<p>Yes, Head of Internal Audit is required to give an opinion on Internal Control based on activity undertaken throughout the year. The Audit Committee endorse the risk based internal audit plan to determine coverage. Internal Audit reports identify weaknesses in Internal Control and propose agreed actions to be implemented by Management. Areas of poor control are presented to the IA Working Group where the actions are tracked. The Audit Committee also received an</p>	<p>Yes, Head of Internal Audit is required to give an opinion on Internal Control based on activity undertaken throughout the year. The Audit Committee endorse the risk based internal audit plan to determine coverage. Internal Audit reports identify weaknesses in Internal Control and propose agreed actions to be implemented by Management. Areas of poor control are presented to the IA Working Group where the actions are tracked. The Audit Committee also received an</p>



Enquiries of the Audit Committee		
Question	2014-15 Response	2015-16 Response
	external report by KPMG into the function of Internal Audit.	external report by KPMG into the function of Internal Audit.
5. How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?	Candour of officers is essential. Fraud aware culture encourages reporting of concerns to Managers, Section 151 Officer, Monitoring Officer, Internal Audit and Corporate Fraud. This is supported by the Council whistleblowing policy that was approved in March 2015.	Candour of officers is essential. Fraud aware culture encourages reporting of concerns to Managers, Section 151 Officer, Monitoring Officer, Internal Audit and Corporate Fraud. This is supported by the Council whistleblowing policy that was approved in March 2015.
6. From a fraud and corruption perspective, what are considered by the Audit Committee to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?	<p>Any post that deals with external contractors and letting of contracts may be high risk. Separation of duties and the internal audit programme mitigate the risk. Any person with the ability to influence material decisions (financial, contractual or authoritative).</p> <p>All posts with influence are required to declare any potential conflicts of interests. Managers has the responsibility for mitigating these risks and identifying any potential breaches. In addition, the Internal audit activity will consider compliance with the Council's Code of Conduct.</p> <p>Services where employees handle cash carry risk. Internal Audit have highlighted cases where controls have not been adequate. The audit committee tries to support improvement.</p>	<p>Any post that deals with external contractors and letting of contracts may be high risk. Separation of duties and the internal audit programme mitigate the risk. Any person with the ability to influence material decisions (financial, contractual or authoritative).</p> <p>All posts with influence are required to declare any potential conflicts of interests. Managers has the responsibility for mitigating these risks and identifying any potential breaches. In addition, the Internal audit activity will consider compliance with the Council's Code of Conduct.</p> <p>Services where employees handle cash carry risk. Internal Audit have highlighted cases where controls have not been adequate. The audit committee tries to support improvement.</p>

### Enquiries of the Audit Committee

Question	2014-15 Response	2015-16 Response
<p>7. Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud and how does the Audit Committee mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Audit committee is unaware of any such instances during the last twelve months. If any potential relationships of transactions arise these would be reported. WAO have reported on suspicions in the past.</p>	<p>The Audit committee is unaware of any such instances during the last twelve months. If any potential relationships of transactions arise these would be reported. WAO have reported on suspicions in the past.</p>
<p>8. Is the Audit Committee aware of any entries made in the accounting records of the Pension Fund that it believes or suspects are false or intentionally misleading?</p>	<p>Audit Committee is dependent on the candour of officers and the support of WAO in identifying any such entry. If any suspicious records are identified they would be reported.</p>	<p>Audit Committee is dependent on the candour of officers and the support of WAO in identifying any such entry. If any suspicious records are identified they would be reported.</p>
<p>9. Is the Audit Committee aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints?</p>	<p>There is constant positive pressure applied by members and officers to ensure that budgets are met and value for money delivered. The Audit Committee sub-group has raised specific questions about areas such as the Adult Services financial pressure. In Audit Committee the S151 Officer is asked about specific financial issues as and when required.</p>	<p>There is constant positive pressure applied by members and officers to ensure that budgets are met and value for money delivered. The Audit Committee sub-group has raised specific questions about areas such as the Adult Services financial pressure. In Audit Committee the S151 Officer is asked about specific financial issues as and when required.</p>

## International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non-compliance rests with management and 'those charged with governance', which for the HB is the Audit Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

### What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management and the Audit Committee:

Enquiries of management		
Question	2014-15 Response	2015-16 Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	Powys Pension Board constantly seeks assurance from senior officers regarding compliance. Reports are presented to the Board by senior Pension Fund officers. Additional reports from reports from Internal and External Audit are also made available to the Board.	Powys Pension Board constantly seeks assurance from senior officers regarding compliance. Reports are presented to the Board by senior Pension Fund officers. Additional reports from reports from Internal and External Audit are also made available to the Board.
2. Are there any potential litigations or claims that would affect the financial statements?	There are potentially legal, insurance and other service issues that need to be recorded, these are reviewed every year with input from the relevant officers.	There are potentially legal, insurance and other service issues that need to be recorded, these are reviewed every year with input from the relevant officers.

<b>Enquiries of the Audit Committee</b>		
<b>Question</b>	<b>2014-15 Response</b>	<b>2015-16 Response</b>
1. How does the Audit Committee, in its role as those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	Reports are presented to the Committee by Finance, Internal Audit, Risk Management and External Audit. In addition, Pension Fund reports are also presented to the Pensions Board.	Reports are presented to the Committee by Finance, Internal Audit, Risk Management and External Audit. In addition, Pension Fund reports are also presented to the Pensions Board.
2. Is the Audit Committee aware of any non-compliance with relevant laws and regulations?	If these occur (or are identified in the audit programme) they are brought to Audit Committee's attention and remedial action plans approved.	If these occur (or are identified in the audit programme) they are brought to Audit Committee's attention and remedial action plans approved.
3. If there have been instances of non-compliance what are they, and what oversight has the Audit Committee had to ensure that action taken by management to address and gaps in control?	None have been identified.	None have been identified.

### **International Standard for Auditing (UK and Ireland) 550 – Related parties**

#### **Background**

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. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.

- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

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?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility 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. We are therefore making requests from both management and the Audit Committee:

#### Enquiries of management

Question	2014-15 Response	2015-16 Response
1. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships?	Register of members interests is maintained, Senior Managers are asked to declare any related interests annually. Accountants identify joint working and joint arrangements. PCC administrative expenses from the pension fund are picked up.	Register of members interests is maintained, Senior Managers are asked to declare any related interests annually. Accountants identify joint working and joint arrangements. PCC administrative expenses from the pension fund are picked up.
2. Confirm that you have: <ul style="list-style-type: none"> <li>• disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware;</li> </ul>	All of the above informs the completion of the Pension Fund Annual Reports & Accounts.	All of the above informs the completion of the Pension Fund Annual Reports & Accounts.

### Enquiries of management

Question	2014-15 Response	2015-16 Response
<p>and</p> <ul style="list-style-type: none"> <li>appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.</li> </ul>		

### Enquiries of the Audit Committee

Question	2014-15 Response	2015-16 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 transaction sand relationships?</p>	<p>The processes in place ensure that the Audit Committee discharges this role. In addition the S151 officer and Head of Internal Audit attend every meeting. Where required other officers must also attend if further explanation were to be sought by the Committee.</p>	<p>The processes in place ensure that the Audit Committee discharges this role. In addition the S151 officer and Head of Internal Audit attend every meeting. Where required other officers must also attend if further explanation were to be sought by the Committee.</p>