

Mr Gary Ferguson
Mr Ted Palmer
Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NB

1 Capital Quarter
Tyndall Street / Stryd Tyndall
Cardiff / Caerdydd
CF10 4BZ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

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Date Issued: 16 August 2023

[Issued via email]

Dear Gary and Ted,

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 the Pension Fund and 'those charged with governance' (the Pension Fund Committee).

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

1. Matters in relation to fraud
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 Pension Fund 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 by 30 September 2023. In the meantime, if you have queries, please contact Michelle Phoenix on 02920 320660 or via Michelle.phoenix@audit.wales.

Yours sincerely

A handwritten signature in black ink, appearing to be 'ME', with a horizontal line extending to the right.

Matthew Edwards

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 Pension Fund is the Pension Fund 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 |
|---|--|
| 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>The risk is considered to be low, because:</p> <p>The Clwyd Pension Fund (CPF) processes and systems are audited by the Flintshire County Council (FCC) internal audit team, and their reports have not identified any serious weakness in relation to potential fraud.</p> <p>- CPF uses many of FCCs processes and systems, including staff payroll, payments of benefits, and the financial ledger system, which are subject to robust controls and are regularly audited. The accounts are subject to internal review by members of the CPF team which would highlight distortion resulting from potential fraud.</p> <p>Regular budget monitoring reports are produced which would highlight areas of potential fraud.</p> |
| 2. Do you have knowledge of any actual, suspected or alleged fraud affecting the audited body? | No. |
| 3. What is management's process for identifying and responding to the risks of fraud in the audited body, | FCC's Anti-Fraud and Corruption Strategy and Fraud and Irregularity Response Plan specify that whenever a matter arises |

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 fraud

| Question | 2022-23 Response |
|---|---|
| including any specific risks of fraud that management has identified or that have been brought to its attention? | in relation to actual or potential fraud it is the responsibility of whichever Chief Officer's area of control it arises in to report it to Internal Audit, who will take whatever action necessary including appropriate reporting. The Annual Internal Audit Report reports on performance against the Anti-Fraud and Corruption Strategy. |
| 4. What classes of transactions, account balances and disclosures have you identified as most at risk of fraud? | Any transactions which are paid from either the CPF or FCC bank accounts would be at risk of fraud. |
| 5. Are you aware of any whistleblowing or complaints by potential whistle blowers? If so, what has been the audited body's response? | None that CPF is aware of. |
| 6. What is management's communication, if any, to those charged with governance regarding their processes for identifying and responding to risks of fraud? | CPF Committee regularly receive updated risk registers. They also receive internal audit reports and minutes of the meetings of the Pension Board. The Independent Advisor monitors activity and produces an annual report. CPF Committee also receive regular |

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Enquiries of management – in relation to fraud

| Question | 2022-23 Response |
|--|---|
| | financial monitoring reports. The CPF accounts are subject to external audit by Audit Wales |
| 7. What is management's communication, if any, to employees regarding their views on business practices and ethical behaviour? | The FCC intranet contains all the relevant policies which can be accessed by all officers of FCC at any time. |
| 8. For service organisations, have you reported any fraud to the user entity? | No |

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? | No. |
| 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? | An Anti-Fraud and Corruption Strategy was approved by the Clwyd Pension Fund Committee on 29 March 2023. There is an Annual independent external audit of the Fund's financial accounts to provide a further safeguard to prevent and detect fraud and corruption. In signing off the financial accounts the auditor's responsibilities including obtaining reasonable assurance that the Fund's financial statements are free from material misstatement whether due to fraud or error. Furthermore, the Chief Finance Officer and Chair of the Pension Fund Committee are required to sign a letter of representation declaring that they have fulfilled their responsibilities in the design, implementation, maintenance and review of internal controls to prevent and detect fraud and error. In addition there have been low occurrences of fraud to date. |
| 3. How do you exercise oversight of: | CPF Committee regularly receive updated risk registers. They also receive internal audit reports and minutes of the meetings of the Pension Board. The Independent Advisor |

Enquiries of those charged with governance – in relation to fraud

| Question | 2022-23 Response |
|---|--|
| <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? | monitors activity and produces an annual report. CPF Committee also receive regular financial monitoring reports. The CPF accounts are subject to external audit by Audit Wales. |

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, is responsible for ensuring that the Pension Fund'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 Pension Fund 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? | All CPF activity is designed to conform to statutory requirements and the requirements of The Pensions Regulator. The Independent Advisor monitors CPF activity and reports annually. CPF makes use of external advisors, including an Actuary and an Investment Advisor, who also report annually. There is an Advisory Panel in place, which includes the Corporate Finance Manager, S151 and the Corporate Manager, People and Organisational Development, who work with CPF to ensure positive outcomes in all areas of CPF activity |
| 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? | The Breaches Register includes all cases of non-compliance and is reported regularly to the CPF Committee and the Pensions Board. No Breach has required reporting to The Pensions Regulator during 2022/23, and no Breach has had an impact on the preparation of the accounts |
| 3. Are there any potential litigations or claims that would affect the financial statements? | None that CPF is aware of |
| 4. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | 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 Pension Fund Committee, in your role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with? | As part of the regular reporting cycle to each CPF Committee, the Committee receives updates on Governance matters, which includes reports on the activities of the Pension Board. Breaches are reported to CPF Committee and the Pension Board |

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.

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

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. | Note 23 in the accounts for 22/23 make all the necessary disclosures. There has been a change from October 2022 which now includes the disclosure of the Head of the Pension Fund, as agreed with Audit Wales in 21/22. |

Enquiries of management – in relation to related parties

| Question | 2022-23 Response |
|---|---|
| 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. | Note 23 of the accounts for 22/23 make all the necessary disclosures. |
| 3. What controls are in place to identify, account for and disclose related party transactions and relationships? | CPF has a Conflict of Interest Policy approved by CPF Committee. CPF Committee members regularly complete disclosures which are maintained on file. Members make any appropriate disclosure at the beginning of each CPF Committee meeting |
| 4. What controls are in place to authorise and approve significant transactions and arrangements: <ul data-bbox="405 954 972 1018" style="list-style-type: none">• with related parties, and• outside the normal course of business? | CPF has a Conflict of Interest Policy approved by CPF Committee. CPF Committee members regularly complete disclosures which are maintained on file. Members make any appropriate disclosure at the beginning of each CPF Committee meeting |

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 related parties

| Question | 2022-23 Response |
|--|--|
| 1. How does the Pension Fund 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? | Members make appropriate declaration before each CPF Committee meeting. The Committee receive reports on the processes involved in the preparation of the CPF accounts which includes a Related Parties disclosure note. |