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Mr Chris Moore  
Director of Corporate Services  
Carmarthenshire County Council  
County Hall  
Carmarthen  
SA31 1JP

**Reference:** DPF 22-23

**Date issued:** 31 March 2023

Dear Chris

## 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 Dyfed Pension Fund and 'those charged with governance' (Governance & Audit Committee).

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

- Matters in relation to fraud
- Matters in relation to laws and regulations
- Matters in relation to related parties

The information you provide will inform our understanding of the Dyfed 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 June 2023. In the meantime, if you have queries, please contact Jason Blewitt on 07970737478 or [jason.blewitt@audit.wales](mailto:jason.blewitt@audit.wales).

Yours sincerely



Derwyn Owen

Engagement Director

# 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 Governance & 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 financial reporting

Question	2022-23 Response
Are there any significant matters or events which have occurred during the year which could influence our audit approach or the financial statements?	No
What are your general views on the entity's risk assessment process relating to financial reporting?	<p>It is management's opinion that the risk relating to financial reporting is low due to the checks and controls that are in place. The Authority has an adequate and effective control environment in operation.</p> <p>Reconciliations are performed on a regular basis to ensure the integrity of the ledger. Extensive working papers are in place which feed into the accounts.</p> <p>Reconciliations, working papers and accounts are audited each year by Audit Wales.</p>
Are you aware of significant transactions that are outside the normal trading activities of the business?	No
Are you aware of any transactions, events or changes in circumstances that would cause impairments of non-current assets?	No

## Enquiries of management – in relation to financial reporting

Question	2022-23 Response
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No
Have there been any changes in accounting policies in relation to significant estimates?	No
Have there been any issues that may impact the preparation of the accounts identified so far?	No
Do you have knowledge of events or conditions beyond the period of the going concern assessment that may cast significant doubt on the entity's ability to continue as a going concern?	No

## Enquiries of management – in relation to fraud

Question	Response
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?	It is management's opinion that the risk of material misstatement of the financial statements due to fraud are low due to the checks and controls that are in place. The Authority has an adequate and effective control environment in operation. There are clear Governance arrangements with defined Management responsibilities and Committee Structures in place. Risk Management and the Control Framework are sound and operated consistently. The Authority has an established Constitution, has developed Policies, and approved Financial Procedure Rules that provide advice and guidance to all staff and members. The Authority has an Internal Audit team with responsibility for providing ongoing fraud detection and prevention service. The Authority participates in NFI.
Do you have knowledge of any actual, suspected or alleged fraud affecting the audited body?	No
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?	Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority. The Authority has an Internal Audit team with responsibility for providing ongoing fraud detection and prevention service. Internal Audit aims to provide a pro-active

Enquiries of management – in relation to fraud	
Question	Response
	<p>approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received Fraud awareness training. Pension Fund participates in NFI, undertakes mortality screening of pensioners.</p>
<p>What classes of transactions, account balances and disclosures have you identified as most at risk of fraud?</p>	<p>Transfers out of the Pension Scheme – pension scams. High value transactions made to investment managers – possibility of receiving fraudulent bank details.</p>
<p>Are you aware of any whistleblowing or complaints by potential whistle blowers? If so, what has been the audited body's response?</p>	<p>No</p>
<p>What is management's communication, if any, to those charged with governance regarding their processes for identifying and responding to risks of fraud?</p>	<p>The Annual Report from the designated “Head of Audit” (Head of Revenues &amp; Financial Compliance) to the Governance &amp; Audit Committee provides an opportunity to summarise issues relating to fraud or to report any individual cases which have reached a conclusion. Any significant case of fraud concluding during the year could form a separate Agenda Item to appraise the Committee of the facts of the individual case and advise of the control</p>

Enquiries of management – in relation to fraud	
Question	Response
	measures either already put in place or to be put in place to minimise the risk of any recurrence.
What is management's communication, if any, to employees regarding their views on business practices and ethical behaviour?	<p>The Authority's has an Anti-Fraud and Anti-Corruption Strategy which is available on the Authority's Intranet</p> <p>The Authority has an established Code of Conduct for Members and Staff, and a whistleblowing policy.</p> <p>All staff are required to make an annual declaration of personal interests and are reminded of the Officers code of Conduct.</p>



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

Question	Response
<p>Do you have any knowledge of actual, suspected or alleged fraud affecting the audited body?</p>	<p>No</p>
<p>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>	<p>It is management's opinion that the risk of fraud is minimal. There are robust controls in place within the Pension Investment and Administration teams. These include adequate segregation of duties and established approval processes. Reconciliations are also carried out which would assist in identifying any fraud.</p>
<p>How do you exercise oversight of:</p> <ul style="list-style-type: none"> <li>• management's processes for identifying and responding to the risk of fraud in the audited body, and</li> <li>• the controls that management has established to mitigate these risks?</li> </ul>	<p>Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority. The Authority has an Internal Audit team with responsibility for providing ongoing fraud detection and prevention service covers all areas. Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to</p>

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

Question	Response
	all systems under review. All Internal Audit staff have received Fraud awareness training.

# 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
What are the policies and procedures in place to identify applicable legal and regulatory requirements to ensure compliance?	<p>Changes to Local Government Pension Scheme regulations are issued by Department for Levelling Up, Housing &amp; Communities.</p> <p>Correspondence received from Scheme Advisory Board (SAB). Regular member and officer attendance at training events and conferences to ensure up to date knowledge of legal and regulatory compliance. Increased collaboration with other funds also assists in ensuring compliance.</p>
Are you aware of any instances of non-compliance with laws or regulations? Is the entity on notice of any such possible instances of non-compliance?	No
What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?	Litigation against the LGPS would have to be dealt with centrally by Department for Levelling Up Housing & Communities and any resultant action would be applied Nationally.

## Enquiries of management – in relation to laws and regulations

Question	2022-23 Response
Have there been any examinations or inquiries performed by licensing, tax or other authorities/regulators?	No
Are there any potential litigations or claims that would affect the financial statements?	No
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
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
How does the Governance & Audit Committee, in your role as those charged with governance, obtain assurance that all relevant laws and regulations have been complied with?	Reliance on Internal Audit, Monitoring Officer, Section 151 Officer, Letter of representation and Audit Wales feedback.

### Enquiries of management – in relation to control environment and IT systems

Question	2022-23 Response
Have there been any changes to significant IT systems or applications in the period?	No significant changes. Sharepoint introduced to replace Council File Plan.

## Enquiries of management – in relation to risk and governance

Question	2022-23 Response
<p>How do you communicate to those charged with governance regarding business risks including fraud?</p>	<p>Extensive risk register in place for the Fund. The register is reviewed quarterly and taken to both Pension Committee and Pension Board at each meeting.</p>
<p>What is the allocation of responsibilities between those charged with governance and management?</p>	<p>Officers prepare the risk register and review it quarterly. This includes ensuring risks are appropriately identified and that mitigations in place remain appropriate and effective. Consideration would also be given to if new risks need to be identified and what mitigations can be put in place.</p> <p>Pension Committee review the risk register at each meeting and any changes are highlighted to them. The risk register also goes to each meeting of the Pension Board who also provide scrutiny.</p>
<p>What procedures are in place to ensure the compliance and completeness of Governance reports?</p>	<p>Established processes in place, conferences attended by members and officers to receive any updates in terms of changes to reporting requirements. Governance Policy and Governance Compliance Statement reviewed and updated as necessary.</p>

## Enquiries of management – in relation to risk and governance

Question	2022-23 Response
What procedures are in place to ensure the compliance and completeness of Sustainability reports?	No requirement in terms of sustainability reporting for the Fund yet due to its size. Ongoing work with WPP to gather the necessary information to ensure compliance with reporting requirements once these are in place e.g. TCFD reporting.



# 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
<p>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.</p>	<p>No</p>
<p>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.</p>	<p>Only related party for the Fund is Carmarthenshire County Council (administering authority of the Fund). Disclosure in both CCC and DPF accounts to reflect transactions between organisations.</p>
<p>What controls are in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Established processes in place, transactions in the main relate to Pension contributions by CCC into the Fund.</p> <p>Confirmation given in the Letter of Representation that related party relationships and transactions have been appropriately accounted for and disclosed.</p>

### Enquiries of management – in relation to related parties

Question	2022-23 Response
<p>What controls are in place to authorise and approve significant transactions and arrangements:</p> <ul style="list-style-type: none"><li>• with related parties, and</li><li>• outside the normal course of business?</li></ul>	<p>Enquires made of approved officers and members for details of any potential related party transactions. Evidence subjected to audit by Audit Wales.</p>

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

Question	2022-23 Response
<p>How does the Governance &amp; 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>Disclosure made in the statement of Accounts which is approved by the Governance &amp; Audit Committee, Letter of Representations and feedback from Audit Wales.</p>