

Open Report on behalf of Executive Director, Resources & Community Safety

Report to:	Audit Committee
Date:	23 April 2012
Subject:	International Audit Standards - Response to Management Processes Questions

Summary:

This report provides the Committee with an assessment around whether the Councils financial statements may be mis-stated due to fraud or error.

Recommendation(s):

Consider if the assessment accurately reflects the Councils management processes to minimise the risk of fraud and error in our financial statements.

Background

The External Auditors are required to obtain an understanding of the Council's management processes in a number of areas. The International Auditing Standards specify the areas concerned and each one of these is listed below together with the details of our current processes.

Note: A material mis-statement for the Council is around £11m.

1. An assessment of the risk that financial statements may be materially mis-stated due to fraud

There are a variety of controls to ensure that the Council's accounts are accurate and reflect properly authorised expenditure and income due to the Council.

Accounting – the form of the accounts and accounting processes are determined by the Executive Director of Resources and Community Safety. There are regular reconciliations covering bank reconciliation, payments, payroll and suspense accounts. Access to make journal entries in the accounts is restricted and journals in excess of £50k are subject to separate authorisation.

Orders and Payments – access is restricted through formal schemes of authorisation. Payments in excess of £50k require release by senior finance staff. There are formal procurement and tendering rules for contracts.

Monitoring expenditure and income – every area of expenditure and income is the responsibility of a named budget holder. Budget holders are required to review the accuracy of payments and income regularly throughout the year. This is supplemented by specialist contract management expertise for larger contracts.

Statement of accounts – there are a variety of year end reconciliations and checks. There is also a robust statement of accounts quality assurance undertaken by specialist finance staff independently of staff who prepare the draft statements. This aspect did not function effectively as part of the 2010/11 financial statements preparation however action has been taken to rectify the problems for the 2011/12 accounts closure process.

2. Identifying and responding to risks of fraud in the organisation

Our proactive counter fraud work and whistle blowing arrangements help us fight against fraud and reduce our exposure to the risk of fraud. Our annual report provides information on the outcomes of this work.

The Council has recognised the importance of protecting the public purse and has strengthened the Counter Fraud Team.

The risk of fraud is included in our risk management processes.

We also work with other local authorities to share good practice and undertake joint work eg raise awareness.

Outcomes and progress of our proactive counter fraud work is monitored by our Audit Committee.

Appendix A includes our response to a series of fraud related questions which will also help to inform External Audit's assessment of the risk of fraud and error within the financial statements.

3. Communication to employees of views on business practice and ethical behaviour

Employees are made aware of these via:-

- The induction process
- The Code of Conduct for Employees
- The Councils value statement
- The Constitution, particularly Financial Regulations
- Internal communications through our intranet GEORGE

4. Communication to those charged with governance of the processes for identifying and responding to fraud

The Audit Committee is informed by:-

- The review of the Counter Fraud and Whistle Blowing policies which are based on good practice.
- Approval and progress reports on the delivery of our Counter Fraud Work Plan
- The Authority's Annual Governance Statement
- Internal and External Audit Plans and Reports
- The Final Accounts scrutiny and other External Audit Reports

5 Awareness of any actual or alleged instances of fraud

During the last 12 months, our counter fraud team has been involved in a number of investigations. The combined value does not represent any material effect on the financial statements. Work is also underway to recover and seek redress where we can.

6 Compliance with laws and regulations and the potential for litigation and claims that would affect the financial statements

The Authority's Constitution provides the framework for the Council's governance arrangements and, as well as this:-

- The Monitoring Officer is responsible, after consultation, for reporting to full Council or Executive, if it is considered that any proposal, decision or omission would give rise to unlawfulness.
- Legal Comments are contained in reports to Council, the Executive and Committees to advise on compliance with the policy framework and the Constitution.
- The Executive Director – Resources and Community Safety has responsibility to highlight any proposal, decision or course of action which will involve any unlawful expenditure and the financial impact of any decision.
- The Council has a strong overall control environment which aims to reduce the risk of potential litigation and claims arising. Regular Internal Audit reviews occur to ensure compliance with established controls.
- The risk management process assesses the key risks facing the Council and takes measured risks that seek to minimise impact and maximise benefits / innovation.
- Our insurance cover helps us minimise our exposure to potentially large claims.

- Instances of potential claims will be acknowledged, if appropriate, as a contingent liability in the financial statements of the authority.

Conclusion

Given the above information the Council is assessed as **low risk** that the financial statements may be materially mis-stated due to fraud or error.

Consultation

a) Policy Proofing Actions Required

Not applicable

Appendices

These are listed below and attached at the back of the report	
Appendix A	Fraud and error questionnaire

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Lucy Pledge, who can be contacted on 01522 553692 or lucy.pledge@lincolnshire.gov.uk.