

## Regulatory and Other Committee

### Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	<b>Audit Committee</b>
Date:	<b>27 March 2017</b>
Subject:	<b>International Audit Standard - Response to Management Processes Questions</b>

#### Summary:

This report provides the Committee with an assessment around whether the County Council and Pension Fund financial statements may be mis-stated due to fraud or error.

#### Recommendation(s):

To consider if the assessment accurately reflects the Council's management processes to minimise the risk of fraud or error in the County Council and Pension Fund financial statements.

#### Background

Each year 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 is listed below, together with the details of our current processes.

Note: A material mis-statement for the Authority's accounts in 2016/17 is around £12m and £19m for the Pension Fund accounts.

#### 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 accounts are accurate and reflect properly authorised expenditure and income due to the Council.

**Accounting** – the form of the accounts is mainly prescriptive from the CIPFA code of practice and the accounting processes are determined by the Executive Director of Finance and Public Protection. There are regular reconciliations covering bank reconciliation, payments, payroll and suspense accounts. Reconciliation activity in 2016/17 continues to be challenging

owing to the remaining outstanding issues arising from the Agresso implementation. Access to make journal entries in the accounts is restricted and year end manual accruals in excess of £50k are subject to separate authorisation.

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

There is segregation of duties between purchase and payment and appropriate levels of authorisation have been set.

**Monitoring expenditure and income** – every area of expenditure and income is the responsibility of a named budget holder. Throughout the year Budget Holders are required to regularly review the accuracy of payments and income. This activity has significantly improved since 2015/16 with reports available, support available, and the general ease of use of the system. The ability to input projections, however, is still challenging. 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 peer review of the statement of accounts undertaken by specialist finance staff independently of staff who prepare the draft statements.

## 2. **An assessment of the risk that the Pension Fund statements may be materially mis-stated due to fraud**

In addition to the arrangements described above, there are a number of specific controls and requirements which apply to the administration of the Lincolnshire Pension Fund. The fund is not subject directly to any laws and regulations that are any different to other bodies in the same sector:

- UK law which applies to pension schemes including Act of Parliament and regulations
- European law
- Case law which is relevant to pension schemes

The Local Government Pension schemes are regulated by a range of specific statutory requirements, the main ones being:

- Local Government Pension Fund (Management and Investment of Funds) Regulations 2016
- Local Government Pension Scheme Regulations 2013

The accounts format and content is covered by the Pensions SoRP and underpinned at a high level by the Accounts and Audit Regulations as well as the specific Codes published under statute such as the CIPFA Codes covering the accounts.

The Council employs external investment managers to make most investment decisions and a custodian holds the investment certificates which add further assurance to the overall control environment. The Council receives annual auditor assurance reports from these organisations.

The Pensions Committee approves the investment policy of the Fund and monitors its implementation during the year. The Committee meets, as a minimum, on a quarterly basis and special meetings are convened if considered necessary. The Committee membership includes representatives from the County Council, district councils, other employers and trade unions. The Council now has a Pensions Board in place which overviews the governance arrangements for management of the Fund as well as compliance with the requirements of the Pensions Regulator.

### **3. Identifying and responding to risks of fraud in the organisation**

Our proactive counter fraud work and whistleblowing 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 maintained a robust response through its dedicated 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 e.g. raise awareness. This is enhanced by the Lincolnshire Counter Fraud Partnership – reporting directly to the Chief Finance Officer Group and tasked with carrying out county-wide fraud proactive exercises in areas of high fraud risk. We also take account of best practice and emerging fraud issues published by the CIPFA Counter Fraud Centre.

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

The difficulties with the introduction of the Council's new financial system (Agresso) and the resulting impact on the Council's financial control environment may mean a higher risk of fraud or error. Our response to this is to increase data analytics/increased substantive testing. SERCO have also commissioned PWC to help validate the accuracy of payroll transactions.

Employees will receive statements to confirm the accuracy of payroll transactions.

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 Authority and Pension Fund financial statements.

**4. 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
- Training courses

**5. 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 Whistleblowing 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

**6. 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. The Authority has also recovered fraud losses in year and has taken all reasonable action to seek redress, where possible.

**7. 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 – Finance and Public Protection 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.
- A robust assurance framework underpins the Council's governance arrangements – it is regularly updated and periodically reviewed to ensure continued effectiveness.
- There are clear policies in place which are routinely updated and communicated throughout the Authority. The Council has strong, well established corporate functions which, along with the ongoing support from its legal advisors, help to minimise the risk of non-compliance with laws and regulations.
- 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

N/A

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Response to fraud and error questions

## **Background Papers**

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

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