



Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	19 March 2021
Subject:	International Standards on Auditing - Response to Management Processes Questions

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 – with the aim to support risk assessment around fraud, error or a material mis-statements in the County Council and Pension Fund financial statements. This report sets out the management responses to those questions. Responses to External Audit Questions cover both LCC Financial Accounts and those of Lincolnshire Pension Fund.

Note: A material mis-statement for the Authority's accounts in 2020/21 is £22.8m for the Council and £22.2m for the Pension Fund.

Responses to External Audit Enquiries

The questions asked by External Audit fall under 5 enquiry areas:

1. Fraud Risk and Control

The Council acknowledges that inherent fraud risks are ever present, but has appropriate arrangements in place to manage and reduce this risk.

The Council adopts a zero tolerance approach to fraud. This is demonstrated through Council policies and procedures which are designed to prevent, detect, deter and mitigate fraud.

Appendix A to this report set out management responses to questions about:

- Controls and processes established by management to prevent, detect, deter and mitigate fraud
- Management's monitoring arrangements
- How fraud risks are identified, specific risk areas, disclosures and fraud responses
- Management communication and reporting about fraud risk and response to those charged with governance
- Communication to employees about management's views about business practices and ethical behaviours
- Instances of actual, suspected or alleged fraud within the Council and of misconduct or unethical behaviour related to financial reporting or misappropriation of assets, and how the instances were addressed.
- The nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial reporting

Management responses to the questions outline a variety of controls that are in place to ensure that the accounts are accurate and reflect properly authorised expenditure and income of the Council and Lincolnshire Pension Fund.

Management considers there is a **low** risk of material misstatement due to fraud in both the financial statements of the Council, and Lincolnshire Pension Fund.

2. Transactions Outside the Normal Course of Business

Management advised there have been no significant decisions made outside the normal course of business for the Council that would impact LCC financial statements, with the exception of emergency response to the Pandemic. There have been significant transitions across the Pension Fund - but these are also part of normal business.

It was recognised that the Council has been involved in support for emergency arrangement in response to the pandemic. Activity is characterised by the Council's powers and role in the Civil Contingencies response. Finance managers are now involved with tactical and strategic groups and receive weekly reports so that they can identify matters of financial concern at an early stage. There have been no significant decisions made outside of the Council's normal decision making processes.

Management is not aware of other transactions outside normal business.

3. Laws and Regulations

Financial statements produced for the Council and Lincolnshire Pension Fund are in accordance with the regulatory framework within which local government operates.

Appendix A sets out management responses to confirm:

- The applicable legal and regulatory frameworks and identification of laws and regulations that would have a direct effect on the determination of material amounts or disclosures in the financial statements
- How the Council is complying with the legal and regulatory framework
- Summary details of instances of actual, suspected or alleged non-compliance with laws and regulations, including actual or possible illegal acts, and statement that there is no material impact on accounts.
- Arrangements in place to account for litigation, claims and assessments that the Council is involved in.

Management reported that sufficient provision has been made for claims and that outstanding actions will not have a material effect on the financial statements and do not require disclosure in the financial statements.

4. Accountancy Estimates

There were no material changes that would give rise to new or the need to revise existing accounting estimates. Reports to this effect are scheduled for Audit Committee and Pensions Committee in March 2021.

5. Related Parties

Details of related parties and the nature of the relationship between the Council and each related party are included in Statements of Accounts. Appendix A records details of:

- Connected subsidiary companies of the Council.
- The arrangements to identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework.
- How significant transactions and arrangements with related parties are authorised and approved.

Management assurances were given that they were not aware of transactions and arrangements outside the normal course of business.

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) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Responses to fraud and error questions from External Audit

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 via lucy.pledge@lincolnshire.gov.uk .