

The International Standards on Auditing (ISA), specifically ISA 240, 250, 540, 550 and 570, require auditors to perform certain procedures to obtain an understanding of the entity and its environment, including the entity's internal control. These procedures include making appropriate inquiries of management and others within the organisation, for the purpose of obtaining information for use in identifying the risks of material misstatement due to fraud and other issues.

The purpose of this document is to record management's assessment against these requirements.

Dated: **13 May 2022**

**Person Responsible** - Assistant Director – Finance, Strategic Finance Lead – Corporate & Head of Internal Audit and Risk Management.

Inquiry Area	Description	Response
Fraud [ISA 240.17a]	What is management’s assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessment?	<p>Overall, we consider the risk that the financial statements may be materially misstated due to fraud is low.</p> <p>Materiality for fraud risk within the LCC Accounts is £23.5m.</p> <p>Management acknowledges that inherent fraud risks are ever present but systems of internal control are in place to manage and reduce this risk. These include:</p> <p>Financial procedures are in place to provide guidance over accounting records and financial systems:</p> <ul style="list-style-type: none"> <li>• Financial Procedure 2: Risk Management and Internal Control includes Audit and Fraud, and Preventing Fraud and Corruption;</li> <li>• Financial Procedure 3: Accounting Records and Financial Systems sets out provision for maintaining accuracy and reliability in accounting records; and</li> <li>• Financial Procedure 4: Control of Resources includes cash management (Treasury Management, Bank Accounts and Bank Reconciliations).</li> </ul> <p>The internal audit function is delivered by Assurance Lincolnshire who provide independent, objective and risk-based assurance on the internal control environment.</p> <p>Assurance Lincolnshire’s Audit &amp; Counter Fraud Team supports the council to minimise fraud and corruption risks. A fraud risk register is maintained for the Council and assessments are reported annually to Audit Committee.</p>

<p>Fraud [ISA 240.A12]</p>	<p>What controls and processes has management established to prevent, detect, deter and mitigate fraud?</p> <p>How does management monitor these controls and processes?</p>	<p>The Council adopts a zero-tolerance approach to fraud. This is demonstrated in a range of measures including:</p> <ul style="list-style-type: none"> <li>• Counter Fraud &amp; anti-corruption policy and fraud response plan</li> <li>• Anti-money laundering policy</li> <li>• Whistleblowing policy and arrangements which include a confidential reporting facility</li> <li>• Dedicated resources in Counter Fraud and Investigations Team (CFIT) – including accredited counter fraud specialists and investigators</li> <li>• Well established networks with counter fraud specialists and enforcement officers (local, regional &amp; national)</li> <li>• Fraud awareness work – internal communications, eLearning, programmes, bespoke and support targeted to high risk areas</li> <li>• Proactive work programme – delivered by CF team to deter and detect</li> <li>• Due diligence checks (internal audit)</li> <li>• Participation in National Fraud Initiative (NFI) led by the Cabinet Office</li> </ul> <p>Investigation of concerns and reports of fraud or irregularity followed by appropriate sanctions &amp; recovery actions. This is supported by the sanctions set out in the Council’s Code of Conduct and employment policies.</p> <p>A reporting framework is in place with regular fraud related reports for Audit Committee, covering:</p> <ul style="list-style-type: none"> <li>• Annual Counter Fraud Plans</li> <li>• Progress and Annual Reporting to demonstrate achievements against the plan</li> </ul>
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Inquiry Area	Description	Response
		<ul style="list-style-type: none"> <li>• Annual Whistleblowing reports</li> <li>• Fraud Risk Assessment</li> <li>• Self-assessment against best practice set out in the latest Fighting Fraud and Corruption Locally (FFCL) recommendations</li> </ul> <p>Corporate Leadership Team (CLT) and Resources Leadership Team (RLT) are sighted to these reports in advance of Audit Committee meetings.</p> <p>Similar reporting arrangements are in place for Internal Audit to make sure management and members receive assurances around risk management and governance arrangements.</p>

Inquiry Area	Description	Response
<p>Fraud [ISA 240.17b]</p>	<p>What is management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist</p>	<p>The Council has appropriate counter fraud, anti-corruption, anti-money laundering and whistleblowing policies.</p> <p>Reliance is placed upon an appropriate internal control environment and financial management arrangements. Management is accountable for the 'management processes' – the procedures are covered in Financial Procedure 2 and the Counter Fraud Policy which includes a paragraph about accountabilities and specific responsibilities for stakeholders.</p> <p>Internal Audit provides an independent objective review, in accordance with PSIAS standards; any fraud concerns are referred to CFIT for follow up.</p> <p>Confidential reporting and whistleblowing arrangements are established, so that staff, contractors, Councillors or the public are able to report any concerns of wrongdoing.</p> <p>Management are encouraged to contact Audit &amp; Counter Fraud Team for counter fraud advice at an early stage.</p> <p>A fraud response plan is in place to investigate any referrals, and where fraud is found, action is taken for sanctions and recovery.</p>

Inquiry Area	Description	Response
Fraud [ISA 240.A14]	Are there particular operating locations or business segments for which a risk of fraud may be more likely to exist?	In line with key fraud risks highlighted nationally and consideration of the Council's own fraud risk profile - areas to focus are: <ul style="list-style-type: none"> <li>• Cyber Risks</li> <li>• Grant payments (Covid 19 funding)</li> <li>• Adult Care Services</li> <li>• Contracts/Procurement</li> <li>• Corruption, bribery, serious and organised crime</li> </ul>
Fraud [ISA 240.17c]	What is the nature and extent of management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the Council?	The Audit Committee is a Regulatory Committee of the Council and has responsibility for of the Council's corporate governance. They provide high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. This includes:  The Audit Committee work plan is structured to include regular reports from Internal Audit, Counter Fraud and Risk Management functions of Assurance Lincolnshire.  Reports include: <ul style="list-style-type: none"> <li>• Annual plans for audit and counter fraud</li> <li>• Updates of progress against plans – which include summaries of audits completed and investigation outcomes</li> <li>• Annual fraud risk assessment</li> <li>• Results of audit's combined assurance mapping exercises</li> <li>• Annual Governance Statement</li> <li>• Annual Reports and Head of Internal Audit Opinion</li> </ul>

Inquiry Area	Description	Response
Fraud [ISA 240.17d]	What is the nature and extent of management’s communication, if any, to employees regarding its views on business practices and ethical behaviour?	<p>The Council has a Codes of Conduct for employees, and it sets out expected ethical standards and is based on the <b>‘Nolan Principals for standards in public life’</b>. New employees are made aware of The Code of Conduct as part of the Council's induction process.</p> <p>The Code of Conduct is incorporated into the Council's employment policies and is supported by disciplinary policies and procedures.</p> <p>Fraud awareness is regularly communicated to employees via ‘The Counter Fraud Hub’, 'News Lincs' and Management bulletins delivered by Internal Communications.</p> <p>This reinforces the zero-tolerance approach taken in the counter fraud policy.</p> <p>Financial procedures provide the framework for managing Council resources. The Finance Team discusses expectations with budget holders during quarterly monitoring review meetings.</p> <p>CLT oversees the Council's governance arrangements and the development of the Annual Governance Statement. There is also a corporate governance group of officers whose role is to support the Council to ensure that it complies with the standards of good governance.</p>

<p>Fraud [ISA 240.18]</p>	<p>Are you aware of or have you identified any instances of actual, suspected or alleged fraud within the Council? This includes instances of misconduct or unethical behaviour related to financial reporting or misappropriation of assets.  Where you are aware of such instances how have these been addressed?</p>	<p>Yes, reports were received and investigated by our dedicated counter fraud &amp; investigation resources. Investigations included fraud, forgery and other financial irregularity issues.</p> <p>Reports of fraud received in 2021/2022 were not over the materiality levels.</p> <p>The Head of Internal Audit provides fraud updates to the S151 officer, External Liaison and Audit Committee.</p> <p>A range of sanctions and redress have been applied. These included:</p> <ul style="list-style-type: none"> <li>• Internal disciplinary procedures (outcomes included: management actions, verbal and written warnings, gross-misconduct dismissals)</li> <li>• Salary recoveries / raising of debtor invoices</li> <li>• Police referrals for criminal prosecution</li> </ul> <p>We are also aware of an instance where a where major external mandate fraud attempt was successfully blocked. Referred this to Lincolnshire Police Economic Crime Team who investigated.</p> <p>Where we identify weaknesses in internal control that contributed to fraud losses, recommendations are made to management to ensure proportionate controls are put in place. Recommendations are communicated to internal audit.</p> <p>Audit Committee has oversight of the Council's counter-fraud arrangements. An annual report of Counter Fraud activity is produced and presented to Audit Committee and the Corporate Leadership Team.</p>
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Inquiry Area	Description	Response
Fraud [ISA 240.A14]	What is the nature and extent of management monitoring of operating locations or business segments for fraudulent activities, including fraudulent financial reporting?	<p>Internal Audit delivers a risk-based programme, including due diligence work of key financial systems to provide management with assurance about the effectiveness of internal controls in place.</p> <p>Additional pro-active Counter Fraud reviews are undertaken where there is heightened risk of fraud.</p> <p>Audit Committee has oversight of the Council's counter-fraud arrangements. An annual report of Counter Fraud activity is produced and presented to Audit Committee and the Corporate Leadership Team.</p> <p>Financial accounts are subject to independent audit by external audit.</p>
Transactions Outside the Normal Course of Business [ISA 240.32c]	Is management aware of any significant transactions outside the normal course of business for the entity?	<p>The Council has been involved in support for emergency arrangements in response to the pandemic.</p> <p>There have been no significant decisions made outside of the Council's normal decision-making processes. Finance managers have been involved with tactical and strategic groups and receive weekly reports so that they can pick up on matters of financial concern at an early stage.</p> <p>Management is not aware of any other issues.</p>

Inquiry Area	Description	Response
<p>Laws and Regulations [ISA 250.A11]</p>	<p>What legal and regulatory frameworks are applicable to the Council?</p>	<p>There are a wide range of other legal and regulatory frameworks which are applicable to the Council. These derive from the regulatory framework within which local government operates.</p> <p>The outcome of internal audit's work is reported in regular progress reports and an annual report to Senior Management and the Audit Committee – these all help inform the Council's Annual Governance statement</p> <p>The Council has a constitution which incorporates the legal requirements relating to Council meetings, procurement, financial regulations, employment of senior staff and the ethical framework. This is reviewed regularly by the monitoring officer and any changes to the Constitution are approved at a meeting of the full Council.</p> <p>In line with legal requirements the Council has a Monitoring Officer, A Head of Paid Service and a Chief Financial Officer all of whom are responsible for ensuring compliance. The Council's statutory officers are all appropriately qualified and experienced officers.</p> <p>The Monitoring Officer delivers an Annual Report to Audit Committee providing comment on lawfulness of the Council's arrangements and decision making.</p> <p>Financial Regulations and Contract Regulations in place.</p>

Inquiry Area	Description	Response
Laws and Regulations [ISA 250.A11]	What laws and regulations have a direct effect on the determination of material amounts or disclosures in the financial statements?	<p>The Council operates in the light of the guidance provided within the current CIPFA framework for the preparation of its financial statements.</p> <p>This includes consideration of The Accounts and Audit Regulations and Prudential Code.</p>
Laws and Regulations [ISA 250.15a]	How is the Council complying with the legal and regulatory framework?	<p>The Council's view is that it is fully compliant with the legal and regulatory framework.</p> <p>An appropriately qualified and experienced legal and senior management team is in place. The constitution defines the decision-making protocols, and this is supported by a policy framework.</p> <p>All decision-making reports are required to be reviewed for legality and financial probity. All reports have legal and resources comments on them as a control to avoid acting contra to the statutory framework.</p> <p>The Monitoring Officer ensures that LCC acts and operates within the law and advises on whether decisions of the Executive are lawful and in accordance with the Budget and Policy Framework.</p> <p>An annual report is presented by the Monitoring Office to Audit Committee.</p>

Inquiry Area	Description	Response
<p>Laws and Regulations [ISA 250.A11]</p>	<p>What policies, procedures, and controls has management established to prevent instances of non-compliance with laws and regulations?</p>	<p>The financial regulations form part of our Constitution. They provide the framework for managing our affairs and apply to every Councilor and officer and anyone acting on its behalf.</p> <p>The procedures underpin the Councils systems of internal control and are designed to ensure that our use of resources is legal, properly authorised and provides value for money.</p> <p>The Code of Conduct sets out expected standards,</p> <ul style="list-style-type: none"> <li>• Accountability</li> <li>• Stewardship</li> <li>• Honesty, integrity, impartiality and objectivity</li> <li>• Conflicts of interest</li> <li>• compliance</li> </ul> <p>Employment policies provide for disciplinary action if employees fail to comply with the code and associated policies.</p> <p>There is a framework of strategies and policies in place to ensure compliance: including: Financial strategies, Investment and treasury management policies and treasury management and prudential indicators. These are checked for legal compliance against regulatory and statutory frameworks.</p> <p>The Head of Internal Audit and Risk provides an annual opinion on the governance risk and control arrangements. The Annual Governance Statement details governance arrangements. This is signed off by the Leader of the Council, Chief Executive and Executive Director – Resources</p>

Inquiry Area	Description	Response
Laws and Regulations [ISA 250.A15]	Are you aware of any instances of actual, suspected or alleged non-compliance with laws and regulations, including actual or possible illegal acts?	<p>Reports were received and investigated by our dedicated counter fraud &amp; investigation team. Investigations included fraud, Grant Fraud and other financial irregularity issues against LCC. Reports of fraud received in 2021/2022 were well below the materiality levels set.</p> <p>There has been an allegation of grant fraud linked to the Covid 19 grants funding which has been investigated and has been passed to Lincolnshire Police for investigation. The impact of these matters will not exceed materiality levels to the accounts.</p>

Inquiry Area	Description	Response
<p>Laws and Regulations [ISA 250.A11]</p>	<p>What policies, procedures and controls has management established for identifying, evaluating and accounting for litigation, claims and assessments?</p>	<p>Financial Procedure 2 covers the Council's insurance arrangements, and the Council has an Insurance Strategy.</p> <p>Financial Regulations and Procedures in the Constitution of Lincolnshire County Council sets out that:</p> <p>The Section 151 Officer is responsible for advising the council on proper insurance cover, and will:</p> <ul style="list-style-type: none"> <li>• Effect corporate insurance cover, through external insurance and internal funding, and negotiate all claims in consultation with other officers, where necessary.</li> <li>• Include all appropriate employees of the council in suitable fidelity guarantee insurance.</li> <li>• Offer insurance cover to schools in accordance with arrangements for financing schools.</li> <li>• Ensure that provision is made for losses that might result from identified risks.</li> <li>• Ensure that procedures are in place to investigate claims within required timescales.</li> </ul> <p>The Section 151 Officer will notify the Executive Member for Resources if the total amount paid to claimants exceeds £2m in any classes of insurance cover.</p> <p>There is an insurance Fund - the process for claims involves legal and insurance. The scheme of delegation sets out approval levels, roles and responsibilities are defined and details how claims are dealt with and settled.</p> <p>Annual actuarial review takes place on the insurance fund to ensure its resilience &amp; long-term sustainability. Quarterly monitoring is in place and balances and claims are reviewed by the Head of Internal Audit &amp; Risk Management.</p>

Inquiry Area	Description	Response
Laws and Regulations [ISA 250.A15]	<p>Is the Council involved in any litigation, claims or assessments?</p> <p>What is management's assessment of such matters?</p> <p>Which litigation, claims and assessments involving the Council may have a material effect on the financial statements and/or may require disclosure in the financial statements?</p>	<p>Yes; there are a number of claims outstanding, but these are accounted for in the Insurance Fund.</p> <p>The value of claims pending is substantial, but not is above the materiality levels for the accounts.</p>
Accounting Estimates [ISA 540.8b]	<p>Have there been changes in circumstances that may give rise to new or the need to revise existing accounting estimates?</p>	<p>Changes are being consulted upon in relation to the balance sheet valuation of infrastructure assets.</p>

Inquiry Area	Description	Response
Related Parties [ISA 550.13ab]	<p>Who are the entity's related parties and what is the nature of the relationship between the Council and each related party?</p> <p>Are there any changes in related parties from the prior period?</p>	<ul style="list-style-type: none"> <li>• These are set out in the 2021/22 statement of accounts.</li> <li>• Declarations from our Members and Senior Officers are collated at year end in accordance with the Code adaption of IAS24.</li> </ul> <p>We have 4 subsidiary companies –</p> <ul style="list-style-type: none"> <li>• Transport Connect Limited,</li> <li>• Lincolnshire County Property Limited,</li> <li>• Lincolnshire Futures Limited</li> <li>• Legal Services Lincolnshire (Trading) Limited. These companies were set up to support service delivery.</li> </ul> <p>Not anticipating any changes from prior period.</p>
Related Parties [ISA 550.13c]	<p>Have there been any transactions with the identified related parties during the period, and if so, what is the type and purpose of the transactions?</p>	<ul style="list-style-type: none"> <li>• This will be identified and analysed following receipt of declaration forms from members and senior officers.</li> <li>• Details of all transactions are also recorded in the Register of Members' Interest and is available for public inspection and online through the council's website.</li> </ul>



Inquiry Area	Description	Response
Related Parties [ISA 550.14]	What policies, procedures and controls has management established to <ul style="list-style-type: none"> <li>• identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework?</li> <li>• authorise and approve significant transactions and arrangements with related parties; and</li> <li>• authorise and approve significant transactions and arrangements outside the normal course of business.</li> </ul>	Declaration of interest form is sent out to members and senior officers for return annually. This is checked against their declaration of interest published in the website. Discrepancy is investigated. <ul style="list-style-type: none"> <li>• Companies House is checked for directorship of executive members and senior officers to cross check their declaration. Any discrepancy is again investigated.</li> <li>• Declaration of interest at meetings can be accessed online to strengthen transparency.</li> <li>• Transactions are approved in accordance with the financial regulations.</li> <li>• Management is not aware of transactions and arrangements outside the normal course of business.</li> <li>• Investment in companies is made in accordance with the Capital Strategy, which is approved annually.</li> <li>• NFI – bi annual exercise data match of payroll data (staff and members) against supplier data. CFIT investigate undeclared conflicts of interest.</li> </ul>

Inquiry Area	Description	Response
<p>Going Concern [ISA 570.10]</p>	<p>Has management made an assessment of the entity's ability to continue as a going concern?</p> <p>If so, has management identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, management's plans to address them?</p> <p>If not, what is management's basis for the intended use of the going concern assumption?</p>	<p>We are not aware of any events or conditions which might affect the going concern of the County Council.</p>
<p>Going Concern [ISA 570.15]</p>	<p>Is management aware of any events or conditions beyond the period of management's formal assessment that may cast significant doubt on the entity's ability to continue as a going concern?</p>	<p>We are not aware of any events.</p>