

Response from Audit, Risk and Governance Committee Chair of Lancashire County Council

Fraud risk assessment

Auditor's Questions	Response for Lancashire County Council	Response for Lancashire County Pension Fund
Has the Council / Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?	The Council maintains a risk register which includes consideration of fraud risk. Fraud has not been formally identified as a high risk on the Council's corporate risk register. The Internal Audit Plan is designed to test the high risk areas and provide assurance.	The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is presented to the Pension Fund Committee on a regular, six monthly basis. The Internal Audit Plan is designed to test the high risk areas and provide assurance.
What are the results of this process?	<p>The risk to the Council of a fraud amounting to c£34 million, ie material to the statement of accounts, is considered to be low.</p> <p>However, the risk of smaller amounts of fraud or theft is recognized and financial controls are regularly audited.</p>	The risk register identifies a medium level of inherent risk of fraud and a low residual risk through the mitigation outlined below.
What processes does the Council / Pension Fund have in place to identify and respond to risks of fraud?	<p>Fraud is one of a wide range of risks which are subject to formal review each quarter.</p> <p>The Internal Audit service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the Council's key financial systems, regularly testing both the corporate controls and controls operated within individual services.</p> <p>Through the Internal Audit service, the Council also actively participates in the National Fraud Initiative.</p>	<p>The Fund participates in the National Fraud Initiative, which actively investigates all data matches found as a result of this process. The results of this work are reported to the Pension Fund Committee. More generally Lancashire County Council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.</p> <p>The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.</p> <p>Pension fund assets are held by an independent custodian or by depositary custodians appointed by investment managers. These custodians are responsible for protecting and safeguarding fund assets.</p> <p>Pension Fund Committee has approved the documented delegation of authorities and authority levels, promoting segregation of duties.</p>

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		The fund has a separate bank account which is operated by LCC and audited on an annual basis. Payment authorisation controls are in place to prevent any losses due to fraud.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	<p>Direct payments to users of adult social services and to the carers of children in receipt of services are high risk and often subject to fraud.</p> <p>Internal audit work on these areas has been undertaken during 2017/18: see reports relating to adult and children's services and to the financial assessments supporting these.</p>	<p>There is no real incentive to manipulate revenue recognition for fraudulent purposes.</p> <p>It might be possible for fraudulent investment management charging to take place – fees incurred by the Fund in respect of investment management carried out by managers. Fees are reviewed on a quarterly basis. Fees are broadly similar in basis across the industry.</p>
Are internal controls, including segregation of duties, in place and operating effectively?	<p>The Council's financial controls are regularly audited by the internal audit service. The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on the adequacy of internal control.</p> <p>Generally, the Council is sufficiently resourced to ensure segregation of duties. There are some small areas where this is not the case, but the risk of loss, fraud or theft is assessed as low in these areas (for example the Registrar's service).</p>	<p>The Pension Fund Committee is responsible for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.</p> <p>The Fund has its own governance policy and also complies with the LCC Code of Corporate Governance.</p> <p>The internal audit service performs an annual audit of the internal controls relevant to the Pension Fund general ledger. This review considers segregation of duties along with other internal controls.</p> <p>The latest internal audit opinion on the pension fund general ledger gave substantial assurance over the Fund's system of internal control.</p>
If not, where are the risk areas and what mitigating actions have been taken?	Not applicable.	<p>Internal audit found no areas of extreme or high residual risk around the Fund's system control.</p> <p>Four areas of medium residual risk were identified by internal audit. All of these have now been addressed with mitigation actions.</p>

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<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The Internal Audit service have not identified any areas where there is potential for override of controls or inappropriate influence over financial reporting.</p> <p>A centralized finance function allows for scrutiny of business finance information such that financial reports can be independently verified.</p> <p>Employees are not considered to be under undue pressure to achieve financial targets.</p>	<p>The nature of the Fund does not subject employees to undue pressure around financial targets.</p> <p>An independent actuarial valuation is undertaken on a triennial basis. Fund is 90% funded as at the date of the last valuation.</p> <p>The Investment Panel ensures that performance is in line with expectations according to the investment strategy. The panel operates under delegated responsibility from the Pension Fund Committee and reports to the committee on a quarterly basis.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>Most financial information of significance is reviewed by the centralized finance function, and is verified by senior finance managers to ensure that the risk of misreporting is minimized.</p> <p>The Internal Audit service have not identified any areas where there is potential for misreporting.</p>	<p>Investment performance is monitored on a regular basis. Reconciliation to underlying investment records is undertaken by an independent investment custodian.</p>
<p>How does the Council / Pension Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>Since fraud represents a lapse in financial control, the Audit, Risk and Governance Committee is charged with responsibility for overseeing management's arrangements in response to the risk of fraud. It receives, as a minimum, an annual report from the Internal Audit service addressing whistleblowing, special investigations and counter fraud work, including work on the National Fraud Initiative.</p> <p>In an organisation of Lancashire County Council's size, a proportionate approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. Risk register reviewed on a regular, six monthly basis.</p> <p>Results of work performed in line with the National Fraud Initiative are reported to the Pension Fund Committee (PFC).</p> <p>Local Pensions Board (LPB) performs a scrutiny role, ensuring good governance and compliance with legal and regulatory requirements. LPB reviews the work of the PFC in considering risk monitoring and mitigation.</p> <p>The LPB also sees all breaches of law or regulations, and considers, amongst other things, whether there is a requirement to report a breach to the Pensions Regulator.</p>

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		Fund is compliant with LCC Code of Corporate Governance, Local Government Pension Scheme Regulations and CIPFA / LASAAC Code of Practice.
What arrangements are in place to report fraud issues and risks to the Council / Audit, Risk and Governance Committee?	<p>The Audit, Risk and Governance Committee receives regular progress reports from the Head of Internal Audit, including reports on breaches of internal control and fraud risks where applicable.</p> <p>The Audit, Risk and Governance Committee is also provided with a report at least annually addressing whistleblowing, special investigations and counter fraud work, including information about every case raised and addressed during the year.</p>	<p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is presented to the Pension Fund Committee on a regular, six monthly basis.</p> <p>All reports considered by the Pension Fund Committee identify the key risks involved in any proposed decision and the nature of mitigation, together with any legal or other issues that might arise.</p> <p>The Pension Fund Committee reports directly to Full Council where any breaches or risks are reported.</p> <p>The Local Pensions Board also has a remit to report directly to Full Council.</p>
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Staff are periodically reminded through corporate staff notices of the need to adhere to the Council's Code of Conduct and to behave ethically. For staff without access to the intranet, managers are asked to raise these issues in team meetings. A reminder about whistleblowing, also referring to the Council's commitment to the highest possible standards of openness, probity and accountability, is made through a 'Staff News' items.	Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the LCC Code of Conduct for Employees. The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>All staff are periodically encouraged through staff news items to use the whistleblowing helpline where appropriate and all are investigated. However no significant issues have been reported.</p> <p>A reminder about whistleblowing, also referring to the Council's commitment to the highest possible standards of openness, probity and accountability, was made through a 'Staff News' item in March 2018.</p>	<p>The pension fund accounting team have undertaken on-line fraud awareness training.</p> <p>No issues have been reported by staff in relation to fraud concerns.</p>

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Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	<p>Related party disclosures are requested from relevant members and senior management annually, as defined by IFRS24.</p> <p>No relationships or transactions that might give rise to risks of fraud have been identified to date.</p>	<p>Related party transactions and relationships are reviewed on an annual basis as part of the statutory external audit process.</p> <p>No relationships or transactions that might give rise to risks of fraud have been identified to date.</p> <p>Specific training in relation to declarations of interest is given after each set of County Council elections.</p>
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments, or the Pension Fund, since 1 April 2017?	The Internal Audit service is aware of a number of instances of actual, suspected or alleged, fraud and will report them to the committee in April 2018: none are material to the financial statements.	No.

Law and regulation

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What arrangements does the Council / Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	<p>In an organisation of Lancashire County Council's size, a proportionate approach is taken to an assessment of risk and to the assurance required over the controls implemented to manage it.</p> <p>It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.</p> <p>However, we do have a number of controls in place that include:</p> <ul style="list-style-type: none"> • A designated Monitoring Officer • A Legal Service that provides advice and support • All political decision making reports must have both legal and finance clearance 	<p>Compliance with the Scheme Regulations is ensured by a dedicated technical team and the use of a pension's administration system specifically designed for the LGPS.</p> <p>The Fund's investments are managed in line with the relevant regulations with independent assurance in relation to compliance provided by either the Fund's or LPP's custodian. LPP is a FCA registered company and therefore has to follow strict rules over compliance and has a compliance team which is independent from the investment management.</p> <p>The Fund and its officers must also comply with a range of other laws and regulations applicable to local authorities or generally to any organisation. These are managed through the specific accountabilities of individual managers or through the wider County Council's business processes with the Monitoring Officer</p>

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	<ul style="list-style-type: none"> • Access to independent legal advice • Director assurance statements • Equality impact assessments 	<p>providing advice on the impact of legislative changes when necessary.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>Directors complete annual assurance statements and Corporate Management Team (CMT) review arrangements as part of the development of the Annual Governance Statement and local Code of Corporate Governance. CMT also receive and consider external reports and Internal Audit reports.</p> <p>Other controls in place include:</p> <ul style="list-style-type: none"> • A designated Monitoring Officer • A Legal service that provides advice and support • All political decision making reports must have both legal and finance clearance • Access to independent legal advice • Equality impact assessments 	<p>Head of Fund is designated as the officer responsible for the management of the Fund.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p> <p>Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources.</p> <p>Local Pensions Board assists LCC in ensuring compliance with LGPS and other regulations.</p> <p>The Fund is a member of the CIPFA pension network and other local networking groups such as NWWPG (North West and Wales Practitioners Group) and regularly attends training and conference events to remain fully aware of current and developing laws and regulations.</p>
<p>How is the Council / Pension Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>It is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.</p> <p>However, Audit, Risk and Governance Committee comment on and approve the Annual Governance Statement. They also approve annually the local Code of Corporate Governance that is then approved by Full Council. The Committee also receive and consider external reports and Internal Audit reports as appropriate.</p>	<p>Pension Fund Committee and Local Pensions Board receive reports on potential regulatory changes and implementation.</p>

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	<p>In addition, all committee reports consider any legal/regulatory impact which would alert members to any potential non-compliance.</p>	
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2017?</p>	<p>Several data breaches were reported to the Information Commissioner's Office (ICO).</p> <p>However, it is impractical to expect that either a committee of elected members or the Internal Audit service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.</p>	<p>A report was presented to the Pension Fund committee on a data protection breach. The breach was referred to the County Council's Information Governance team who reported the incident to the Information Commissioner. The Information Commissioner did not require any further action following a full investigation.</p> <p>The Committee noted that the County Council's Senior Information Risk Owner had reviewed the breach and concluded that it was not necessary to report it to the Pensions Regulator.</p> <p>The breach involved the accidental sharing of personal pension's data with one pensioner. The pension details (pay reference number, NI number, monetary value, tax amount, name and address) of 129 Lancashire members contained in a single PDF file was emailed in error to a single pensioner.</p>
<p>What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>There is an established litigation team within the Council's Legal service that uses its professional experience to deal with litigation and claims against the Council.</p>	<p>LCC legal procedures apply to LCPF.</p> <p>Appeals are evaluated by the internal team.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>All relevant claims are included in the Financial Statements and potential claims of significance are noted as required per the financial reporting regulations.</p>	<p>No.</p>
<p>Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?</p>	<p>The ICO contacted the County Council regarding the non-compliance to Subject Access Request timescales. The ICO monitored the Council for 6 months. Revised working practices were put in place and the ICO stopped the monitoring.</p>	<p>No.</p>

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	Further commentary on external reports is provided in the Council's Annual Governance Statement.	

Going Concern

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How will the Council / Audit, Risk and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2017/18 financial statements?	<p>The Council periodically produces a Medium Term financial forecast covering a multi-year time horizon. Gaps between expenditure forecasts and funding levels are addressed through the annual budget setting process.</p> <p>The Council has the ability to raise additional funding through local taxation.</p> <p>The Council's Code of Corporate Governance supports the Director of Finance to bring influence to bear on all material decisions.</p>	<p>Funding level of Fund gives some assurance regarding the going concern basis for the Fund.</p> <p>The CIPFA code states that "as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting".</p> <p>The Council's Code of Corporate Governance supports the Director of Finance to bring influence to bear on all material decisions.</p>