

## Response from Audit, Risk and Governance Committee Chair of Lancashire County Council and Lancashire County Pension Fund – 2019/20 audit

### Fraud risk assessment

| Auditor's Questions  | Response for Lancashire County Council  | Response for Lancashire County Pension Fund  |
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| <p>Has the council / Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> | <p>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.</p> <p>The Internal Audit Plan is designed to test the areas of highest risk to the council's objectives and provide assurance that they are adequately and effectively managed.</p> | <p>The Pension Fund maintains a risk register which includes consideration of fraud risk. This register is reviewed and updated on a quarterly basis and any changes are presented to Pension Fund committee and the Local Pensions Board on a six monthly basis.</p>  |
| <p>What are the results of this process?</p>   | <p>The risk to the council of a fraud amounting to c£32 million, i.e. material to the statement of accounts, is considered to be low.</p> <p>However, the risk of smaller amounts of fraud or theft is recognised and financial controls are regularly audited.</p>   | <p>The risk register identifies a medium level of inherent risk of fraud and a low residual risk through the mitigation outlined as follows.</p>   |
| <p>What processes does the council / Pension Fund have in place to identify and respond to risks of fraud?</p>             | <p>The Internal Audit service designs its audit work, in particular within the council's key financial systems, to identify and pursue indications of fraudulent activity.</p> <p>Through the Internal Audit Service, the council also actively participates in the National Fraud Initiative.</p>  | <p>The Pension Fund actively participates in the National Fraud Initiative. More generally the council's procedures for investigating allegations of fraud and corruption apply equally to the Fund.</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> |

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| <p>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>  | <p>Direct payments to users of adult social care 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 is being undertaken during 2019/20.</p>  | <p>There is no real incentive to manipulate revenue recognition for fraudulent purposes.</p> <p>It is possible that fraudulent investment management fees could be charged, but fees are reviewed on a quarterly basis and are broadly similar in basis across the industry.</p>  |
| <p>Are internal controls, including segregation of duties, in place and operating effectively?</p>   | <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.</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 council's Code of Corporate Governance.</p> <p>The Internal Audit Service considers the internal controls relevant to the Pension Fund general ledger annually.</p> |
| <p>If not, where are the risk areas and what mitigating actions have been taken?</p>   | <p>Not applicable.</p>  | <p>Not applicable.</p>  |
| <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 has not identified any areas where there is potential for override of controls or inappropriate influence over financial reporting.</p> <p>A centralised 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. The preliminary results of the valuation as at 31 March 2019 report that the Fund is 100% funded.</p> <p>The Investment Panel ensures that performance is in line with expectations according to the investment strategy.</p>                      |

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|   |   | The panel operates under delegated responsibility from the Pension Fund Committee and reports to the committee on a quarterly basis.  |
| Are there any areas where there is a potential for misreporting?  | Most financial information of significance is reviewed by the centralised finance function, and is verified by Senior Finance Managers to ensure that the risk of misreporting is minimised.  | Investment performance is monitored on a regular basis. Reconciliation to underlying investment records is undertaken by an independent investment custodian.   |
| How does the council / Pension Committee exercise oversight over management's processes for identifying and responding to risks of fraud? | <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. This register is reviewed and updated on a quarterly basis and any changes are presented to the Pension Fund committee and the Local Pensions Board on a six monthly basis.</p> <p>The results of the work performed under the National Fraud Initiative are reported to the Pension Fund Committee.</p> <p>The Local Pensions Board performs a scrutiny role, ensuring good governance and compliance with legal and regulatory requirements. The board reviews the work of the committee in considering risk monitoring and mitigation.</p> <p>The board is also informed of 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> <p>The Fund is compliant with the county council's Code of Corporate Governance, Local Government Pension Scheme Regulations and Chartered Institute of Public Finance and Accountancy (CIPFA) / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice.</p> |

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| <p>What arrangements are in place to report fraud issues and risks to the Council / Audit, Risk and Governance Committee?</p> | <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 reviewed and updated on a quarterly basis and any changes are presented to Pension Fund committee and the Local Pensions Board on a 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 the Full Council where any breaches or risks are reported. The Local Pensions Board also has a remit to report directly to Full Council.</p> |
| <p>How does the council communicate and encourage ethical behaviour of its staff and contractors?</p>                         | <p>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.</p> <p>A reminder about whistleblowing, also referring to the council's commitment to the highest possible standards of openness, probity and accountability, is periodically made through a 'Staff News' items.</p> | <p>Staff employed within the Lancashire County Pension Fund (LCPF) team are employees of Lancashire County Council and must comply with the council's Code of Conduct for employees. Officers who are members of professional accounting bodies are also covered by professional conduct requirements.</p> <p>The 'seven principles of public life', requiring the highest standards of conduct apply to the Board, officers of and advisors to the Fund.</p> <p>Advisors to the Fund such as actuaries, legal and accounting firms are also covered by their own industry specific ethical standards and professional conduct requirements.</p>                                  |

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| <p>How do you encourage staff to report their concerns about fraud?<br/>Have any significant issues been reported?</p>  | <p>All staff are periodically encouraged through staff news items to use the whistleblowing helpline where appropriate and all reports are investigated.</p> <p>However no significant issues have been reported during the year to date.</p>  | <p>The pension fund staff have undertaken online fraud awareness training.</p> <p>No issues have been reported by staff in relation to fraud concerns.</p>   |
| <p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>   | <p>Related party disclosures are requested from relevant members and senior management annually, as defined by International Financial Reporting Standards (IFRS) 24.</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.</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 elections to the county council.</p> |
| <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 2019?</p> | <p>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 July 2020: none are known at this point to be material to the financial statements.</p>   | <p>No.</p>   |

## Law and regulation

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| <p>What arrangements does the council / Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> | <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>Compliance with the Scheme of Regulations is ensured by a dedicated internal technical team and the use of a pension's administration system specifically designed for the Local Government Pension Scheme (LGPS).</p> |

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|   | <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"> <li>• A designated Monitoring Officer</li> <li>• A Legal Service that provides advice and support</li> <li>• Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified</li> <li>• Access to independent legal advice</li> <li>• Directors' assurance statements</li> <li>• Equality impact assessments</li> </ul> | <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 Local Pensions Partnership's (LPP) custodian. LPP is a Financial Conduct Authority (FCA) registered company and therefore must follow strict rules over compliance and has a compliance team which is independent from the investment management team.</p> <p>The Fund and its officers must also comply with a range of other laws and regulations applicable either to local authorities or to any organisation generally. These are managed through the specific accountabilities of individual managers or through the wider county council's business processes with the Monitoring Officer 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"> <li>• A designated Monitoring Officer</li> <li>• A Legal Service that provides advice and support</li> </ul>  | <p>Head of Fund is designated as the officer responsible for the management of the Fund.</p> <p>Authors of all reports to the Pension Fund Committee are required to seek and consider finance/legal advice, and obtain formal finance/legal clearance where finance/legal implications have been identified.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p>   |

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|   | <ul style="list-style-type: none"> <li>• Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified</li> <li>• Access to independent legal advice</li> <li>• Equality impact assessments</li> </ul>   | <p>Pension Fund Committee undertakes training to ensure possession of the sufficient skills, information and resources.</p> <p>Local Pensions Board assists the council 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). There is regular attendance of 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>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"> <li>• A designated Monitoring Officer</li> <li>• A Legal service that provides advice and support</li> <li>• Authors of all political decision making reports are required to seek and consider finance / legal advice, and obtain formal finance / legal clearance where finance/legal implications have been identified</li> <li>• Access to independent legal advice</li> <li>• Equality impact assessments</li> </ul> | <p>The Pension Fund Committee and Local Pensions Board receive reports on potential regulatory changes and their implementation.</p> <p>Authors of all reports to the Pension Fund Committee are required to seek and consider finance/legal advice, and obtain formal finance/legal clearance where finance/legal implications have been identified.</p> <p>Pension Fund Committee approves the annual governance compliance statement which is prepared by the Head of Fund.</p>   |

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| <p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2019?</p>   | <p>Several data breaches were reported to the Information Commissioner's Office (ICO). 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>However, the Audit, Risk and Governance Committee comments on and approves the Annual Governance Statement.</p> <p>It also approves annually the local Code of Corporate Governance that is then approved by Full Council. The Committee also receives and considers external reports and Internal Audit reports as appropriate.</p> | <p>No.</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>The council's legal procedures apply to Lancashire County Pension Fund.</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 Information Commissioner's Office (ICO) contacted the county council regarding the noncompliance to Subject Access Request timescales. The ICO is monitoring the council for six months. Revised working practices have been put in place.</p>   | <p>No.</p>   |



## Going Concern

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| <p>How will the council / Audit, Risk and Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2019/20 financial statements?</p> | <p>According to the CIPFA code, '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 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>According to the CIPFA code, '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 funding level of the Fund gives some assurance regarding the going concern basis for the Fund.</p> <p>Cash flow is monitored by the Pension Fund Committee and the Fund's advisors on a quarterly basis with particular emphasis on the bridging of contributions income and benefits payable with investment income.</p> <p>The Pension Fund Committee reports directly to Full Council.</p> |