

FINANCIAL PROCEDURE 2

Risk Management and Internal Control

Financial Procedure 2 Risk Management & Internal Control

This procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council

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1. Purpose of Procedure

Good governance is at the heart of any successful business. It is essential for an organisation to achieve its objectives and drive improvement as well as maintain legal and ethical standards in the eyes of the public. This is especially important in the public sector as we are dealing with public money.

The council is accountable to the public for the actions of all its members, employees and others acting on its behalf. It needs to safeguard against the misuse of assets and resources held on the public's behalf. The council controls millions of pounds of public money and assets and takes the governance and stewardship of these resources seriously.

The governance of any organisation affects its appetite for risk and ability to innovate.

This financial procedure will provide guidance on the council's governance framework, policies for managing risk, ensuring effective internal control and for preventing fraud and corruption.

For the purposes of this Financial Procedure **Chief Officers** refers to the **Chief Executive, Section 151 Officer, Executive Directors** and **Chief Fire Officer**.

2. Key Controls.

For good governance, the key controls are:

- The council complies with proper practices (principally those identified in the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government').
- The core functions of our Audit Committee conform to proper practices (principally, those identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities).
- Risk management is an integral part of effective management. This should include the proactive participation of all those associated with planning and delivering services.
- The council aims to comply with the Transparency Code.
- The council complies with the Account and Audit Regulations 2015.
- Developing, communicating and embedding codes of conduct – defining the standards of behaviour for members and staff.

For risk management, the key controls are:

- The council has approved a risk management strategy that complies with proper practices (principally, HM Government – The Orange Book (Management of Risk – Principles and Concepts)).
- Appropriate insurance cover in place to safeguard the council's assets and staff.
- Risk ownership and accountabilities clearly defined and understood by managers and those who deliver services on behalf of the council.

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- Effective business continuity plans in place and tested to confirm the resilience and recovery of the council's critical functions.
- Competent specialist advisors with appropriate training and support for managers e.g. Health and Safety, information assurance.
- The insurance fund maintained and is reviewed by an actuary on timely basis to ensure appropriate cover of our insurable risks. The output is considered as part of the overall risk funding of self-insured risks.

For internal control, the key controls are:

- There is a basic expectation that members and staff will act with integrity and with due regard to matters of probity and propriety, and comply with all relevant rules, regulations, procedures, codes of conduct and that expenditure is lawful.
- Promote ownership and accountability of the control environment.
- Financial and operational controls - which include physical safeguards for assets, segregation of duties, authorisation and approval procedures and information assurance systems.

For audit, the key controls are:

- The council has an adequately resourced and effective internal audit service.
- The internal audit function conforms to proper practices, (principally, the Institute of Internal Auditors Global International Standards (the Standards) and relevant CIPFA's application notes.
- The Head of Audit and Risk Management is the council's **Chief Audit Executive** as defined under the Standards.
- The **Head of Internal Audit and Risk Management** are professionally qualified and experienced – conforming to CIPFA's Statement on the Role of the Head of Internal Audit.
- Quality assurance framework in place, including an external quality assessment at least once every 5 years.
- It is independent in its planning and operation with internal auditors performing their work objectively.
- That the purpose, authority and responsibility of internal audit are set out in an Internal Audit Charter which has been approved by the **Corporate Leadership Team** and **Audit Committee**.
- External Auditors are appointed by the Local Government Association (Public Sector Appointments Ltd) for a minimum period of 5 years.
- The Local Audit and Accountability Act 2014 make the Comptroller and Auditor General responsible for the preparation and maintenance of the code of Audit Practice (the Code) – with day to day operation via the National Audit Office.

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- The External Auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence.

For preventing fraud and corruption, the key controls are:

- The council has an effective counter fraud and corruption policy and maintains a culture that will not tolerate fraud or corruption.
- The council has an adequately resourced and effective counter fraud service.
- There is a basic expectation that members, staff and service providers will act with integrity and with due regard to matters of probity and propriety, and comply with all relevant rules, regulations, procedures, codes of conduct and that expenditure is lawful.
- The council acknowledges fraud risks and recognises the potential impact they can have on valuable resources. Fraud risk assessments are regularly updated and reported appropriately.
- Legislation, including the Bribery Act and Public Interest Disclosure Act 1998, is adhered to.
- The council conforms to appropriate public sector guidance on effectively managing fraud, bribery and corruption such as PSFA standards and guidance. applicable to all public service organisations.

3. Responsibilities of Chief Officers and Members.

Governance, Risk Management and Internal Control

The **Chief Executive** (or Head of paid Service) is responsible for:

- Corporate oversight of significant risks and risk exposure – including compliance with the council's risk management processes and procedures.

The **Section 151 Officer** is responsible for:

- Preparing the risk management policy statement (strategy), for promoting it throughout the council and for advising the Executive on the proper management of risk, for example, the appropriate placement of insurance cover, through external insurance or internal funding and the negotiation of all claims.
- To assist the council to put in place an appropriate control environment and effective internal controls that adhere with proper practices – providing reasonable assurance of compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

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- To maintain an effective internal audit service to evaluate the effectiveness of its risk management, control and governance processes.

The **Monitoring Officer** is responsible to:

- report on matters he or she believes are, or are likely to be, illegal or amount to maladministration.
- be responsible for matters relating to the conduct of councillors and officers.
- be responsible for the operation of the council's constitution.

Executive Directors have responsibility:

- To approve corporate risk policies and setting the risk appetite.
- To take full ownership of all risks within their areas of responsibility, including those related to partnerships in which their service participates.
- Ensure compliance with the council's risk management framework – working within the council's risk appetite.
- Promote a culture of risk management awareness – ensuring risk management is the planned and systematic approach to the identification, evaluation and control of risk.
- Notify the Section 151 Officer promptly of all new or increased risks, activities, properties or vehicles which require insurance and of any alterations that may affect existing insurances.
- Notify the Section 151 Officer immediately of any loss, liability or damage that may lead to a claim against the council, together with any information or explanation required by the Section 151 Officer or the council insurers / insurance team.
- Consult with the Section 151 Officer and Monitoring Officer on the terms of any indemnity that the council is proposing to give.
- Developing, communicating and embedding codes of conduct, defining standards of behaviour for staff.

Members of the **Audit Committee** are responsible for:

- Approving the council's Annual Statement of Accounts and considers the effectiveness of the council's arrangements to secure value for money.
- Considering the council's arrangements for governance and risk management and the internal control environment. Ensuring that its assurance framework adequately addresses the risks and priorities of the council.
- Approve an Annual Governance Statement, prepared in accordance with proper practices in internal control.
- Is responsible for overseeing the effectiveness of the council's risk management arrangements, challenging risk information and escalating issues to the Executive where appropriate.

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- Monitoring the effectiveness of the council's Financial Regulations, Procurement Policy and Procedures and other strategies for counter fraud and anti-bribery, whistle blowing and anti-money laundering.

Audit

The **Section 151 Officer** is responsible for:

- Reporting any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget.
- Making sufficient financial provision for the cost of an effective internal and external audit.
- Ensuring that auditors have the necessary authority to undertake their duties.

Executive Directors have responsibility:

- Commenting on and inputting to, the audit plan and activities.
- Agree (but not direct) the high level scope for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.
- To notify Audit of any major changes in order that time can be allocated within the audit plan.
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure the auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed action arising from audit recommendations are conducted in a timely and efficient fashion.

Members of the **Audit Committee** are responsible for:

- Considering and commenting on the External Auditor's Annual Audit Letter and reports about the effectiveness of the council's financial and operational arrangements.
- Ensuring that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit is actively promoted.
- Approving the annual Internal Audit plan, and receiving reports from the council's Internal Auditor, including the annual report of the Head of Internal Audit and opinion.

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Preventing Fraud and Corruption

The **Chief Executive** (or Head of paid Service) is ultimately accountable for the effectiveness of the council's arrangements for countering fraud and corruption. The council promotes a culture that will not tolerate fraud or corruption.

The **Section 151 Officer** is responsible for:

- Developing and maintaining a counter-fraud and anti-corruption policy to minimise the risk of fraud or financial irregularities occurring.
- Advising senior leaders of their responsibilities under these policies.
- Ensuring that Counter fraud and anti-corruption policies are published on the council's website and that a zero tolerance to fraud is applied.
- Ensures the council maintains adequate and effective internal control arrangements to prevent and detect fraud.
- Ensuring that the council takes part in national counter-fraud measures, such as the national fraud Initiative.

Executive Directors have responsibility:

- To notify the Head of Internal Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources.
- Take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- To ensure that potential irregularities remain confidential and to determine what action should be taken as a result of an investigation.
- To take immediate action to minimise the risk of any or a further loss arising from actual or suspected fraud or financial irregularity.
- To follow the council's Disciplinary Procedures against any member of staff where the outcome of an investigation indicates improper behaviours.

Head of Audit and Risk Management has responsibility to:

- To advise members of their responsibilities under the Counter Fraud Policy and Anti-Money laundering arrangements.
- To report to the Audit Committee on an annual basis on the effectiveness of the council's arrangements to counter fraud and its adherence to best practice.
- To ensure that an annual Counter Fraud plan takes pro-active steps to reduce fraud risks against the council and makes provision for investigation of fraud reports.
- To ensure that where fraud is found proportionate action is taken for sanctions and redress including police referrals where there is sufficient evidence to indicate that a criminal offence may have been committed.

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All officers are required:

- To undertake their duties with honesty and integrity and lead by example in ensuring legislation and internal requirements are met.
- To ensure they and their staff do not implement any financial system or procedures that would compromise the council's financial controls, without written agreement by the **Section 151 Officer**.
- To ensure recruitment is conducted in accordance with the council's recruitment policy to ensure steps are taken to stop people with a history of dishonest behaviour being employed in positions of trust by the council.

Members of the **Audit Committee** are responsible for:

- Monitoring the council's policies and considers the effectiveness of the Counter-Fraud, Corruption and Whistleblowing arrangements. They promote high standards of conduct amongst staff and Councillors and have a nominated fraud champion.

4. Procedural Requirements.

4.1. Governance

Good governance is at the heart of any successful business. It is essential for an organisation to achieve its objectives and drive improvement as well as maintain legal and ethical standards in the eyes of the public. This is especially important in the public sector as we are dealing with public money.

Good governance can mean different things to people – in the public sector it means:

"Achieving the intended outcomes while acting in the public interest at all times"

Corporate governance generally refers to the processes by which an organisation is directed, controlled, led and held to account.

The **Corporate Leadership Team** is required to review, at least annually, the council's governance, risk and control environment (including its ethical framework).

An Annual Governance Statement is compiled each year – reviewing how well the council has been run and setting out any significant governance issues that arose during the year or at the time of publication. The Annual Governance Statement is published alongside the council's financial statements.

4.2. Risk Management

All organisations, whether they are in the private or public sectors, face risks to people, property and continued operations. Risk is defined as the chance or possibility of loss,

damage or injury caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk.

It is vital to support a culture of well measured risk taking throughout the council's business, including strategic, tactical and operational. This includes setting the risk appetite, risk

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ownership and accountabilities and responding to risk in a balanced way. The balanced approach needs to address the level of risk, reward, impact and cost of control measures.

Managing risk should be integrated into normal management systems so that it can achieve goals and maintain a reputation of credibility and reliability.

Management are required to implement effective risk management processes to identify and evaluate all significant risks to the council – whether strategic, project or operational in line with the current risk appetite. They should ensure that mitigating controls are in place and any significant risks and / or issues are escalated to their Directorate or Corporate Leadership team as appropriate. This promotes a culture of 'no surprises'.

The **Corporate Leadership Team** has set out the requirements for managing risks in the risk management strategy which includes the risk appetite. This is the risk tolerance, i.e. the extent to which the council is willing to accept loss or detriment in the performance of its regular services or to secure better outcomes / results. Different risk tolerances will apply to different circumstances.

E learning courses covering strategic and operational risk management have been developed and are available through Lincs2learn.

Executive Directors are required to ensure that there are regular reviews of risk within their Directorates and services and to report at regular intervals to the Corporate Leadership Team and Audit Committee, on the implementation and effectiveness of the Risk Management Strategy. This includes the oversight of strategic and operational risks, key partnership and projects risks.

Insurance

The **Section 151 Officer** is responsible for advising the council on proper insurance cover, and will:

- Effect corporate insurance cover, through external insurance and internal funding, and negotiate all claims in consultation with other officers, where necessary.
- Include all appropriate employees of the council in suitable fidelity guarantee insurance.
- Offer insurance cover to schools in accordance with arrangements for financing schools.
- Ensure that provision is made for losses that might result from identified risks.
- Ensure that procedures are in place to investigate claims within required timescales.

To ensure council employees, or anyone covered by the council's insurances, do not admit liability or make any offer to pay compensation which may prejudice the assessment of liability on any claim against the council.

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The settling of insurance claims against the council will be subject to approval as follows:

| Amount | Minimum approval required |
|---|--|
| Up to £20,000 | Principal Insurance / Risk Officer |
| In excess of £20,000 and up to £250,000 | Insurance Manager |
| In excess of £250,000 and up to £500,000 | Head of Audit and Risk Management (in consultation with Insurance Manager) |
| In excess of £500,000 | Section 151 Officer (in consultation with Insurance Manager) |
| <i>Note: Appropriate legal advice sought in handling claims</i> | |

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.

4.3. Internal Control

Management establishes sound arrangements for planning, appraising, authorising and controlling their operations to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.

The maintenance of an effective assurance framework - including robust corporate oversight and an effective internal audit function. Take appropriate proactive and remedial action.

Management will report, annually, on the assurance framework to the **Corporate Leadership Team** and **Audit Committee**.

Ensuring staff members are aware of the processes and procedures required to operate the control systems.

4.4. Audit

An Internal Audit strategy that sets out the basis of internal audit activity and how the head of internal audit will provide an annual internal audit opinion on the council's framework of governance, risk management and control.

External Audit can identify and report significant deficiencies in any internal controls directly to the Audit Committee and those charged with governance.

The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not conduct any other work for an audited body if that work would impair their independence in conducting any of their statutory duties or might reasonably be perceived as doing so.

Auditors have free and unfettered access to any council member, staff, premises, assets, records, documents and correspondence. They can receive any information and

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explanations to any matter under consideration – including access to third parties (e.g. contractors / partnerships) when required.

Management is required to support the audit process to help effective and efficient delivery of audit work and outcomes and respond promptly for requests for data, information and explanations as required.

4.5. Preventing Fraud and Corruption

Robust financial systems are designed to include controls to prevent and detect fraud and these are subject to regular review.

"Whistleblowing" procedures are in place, including a confidential reporting line (0800 0853716) that members, staff, organisations or members of the public can use to report suspected wrongdoing.

Participate in the National Fraud Initiative – data sharing / matching to detect potential fraud or error.

Zero Tolerance

The council takes a zero-tolerance approach towards fraud and corruption, both from within the authority and from external sources. Definitions of 'fraud', 'corruption' and 'theft' can be found in the Counter Fraud Policy Statement.

All employees should be vigilant for signs fraud or of money laundering and should refer to the Fraud Response Plan and the Anti-Money Laundering Policy Statement and Procedures. [Anti money laundering policy – Introduction, definition and scope - Lincolnshire County Council](#)

Honesty and Integrity

The council expects that members and staff will undertake their duties with honesty and integrity at all levels and lead by example. This includes following Codes of Conduct, legal requirements, rules, procedures and practices.

Staff and members are expected to report any potential conflict of interest or Gifts and Hospitality in accordance the council's Codes of Conduct for Staff and Members.

Fraud Prevention

All staff have a responsibility to safeguard council resources under their control from fraud losses and should refer to guidance for internal control under this financial procedure.

The council will participate in the National Fraud Initiative. This is an exercise that matches electronic data within and between public and private sector bodies that helps prevent and detect fraud. Arrangements for this are governed by the Government's Cabinet Office.

Reporting Concerns

If you have a genuine concern that someone is committing a fraud or you suspect corrupt practices, you must report concerns immediately. The council's Code of Conduct and the Counter Fraud Policy both clearly set out these expectations.

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Reporting options are set out in the council's Counter Fraud policy and a detailed process is set out in the Fraud Response Plan.

The council's Whistleblowing Policy makes provision for staff or others too report concerns confidentially if they have a genuine concern about disclosing their own identity.

Investigation, Sanctions and Redress

Managers and other staff should not investigate any fraud concerns themselves. Instead, the reporting processes should be followed. This is important to avoid potentially contaminating any evidence.

In line with the zero-tolerance approach to fraud, wherever possible they will seek to ensure appropriate sanctions and redress are taken. This includes:

- recovery of fraud losses, and
- pursuing prosecution where there is evidence that a criminal act has taken place.

5. Related Documents.

- Risk Management Strategy
- Internal Audit Charter
- Counter Fraud Policy and Fraud Response Plan
- Whistleblowing Policy
- The Constitution
- Codes of Conduct (Staff and Councillors)

6. Contacts for Advice

Advice on this financial procedure can be sought from the Corporate Audit and Risk Management team.

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Appendix A - Principles of corporate governance

| | |
|--|---|
|  Principle A: Integrity and values <ul style="list-style-type: none">• Staying true to our strong ethical values and standards of conduct• Respecting the rule of law• Creating a culture where statutory officers and other key post holders are able to fulfil their responsibilities• Ensuring fraud, corruption and abuse of position are dealt with effectively• Ensuring a safe environment to raise concerns and learning from our mistakes |  Principle D: Making a difference <ul style="list-style-type: none">• Having a clear vision and strategy setting out our intended outcome for citizens and service users |
|  Principle B: Openness and engagement <ul style="list-style-type: none">• Keeping relevant information open to the public and continuing their involvement• Consultation feedback from the public is used to support service and budget decisions• Providing clear rationale for decision making – being explicit about risk, impact and benefits.• Having effective scrutiny to constructively challenge what we do and the decisions made |  Principle E: Capability <ul style="list-style-type: none">• Clear roles and responsibilities for council leadership• Maintaining a development programme that allows councillors and officers to gain the skills and knowledge they need to perform well in their roles.• Evaluating councillor and officers' performance• Regular oversight of performance, compliments and complaints to enable results (outcomes) to be measured and enable learning |
|  Principle C: Working together <ul style="list-style-type: none">• Having a clear vision and strategy to achieve intended outcomes - making the best use of resources and providing value for money• Being clear about expectations - working effectively together within the resources available• Developing constructive relationships with stakeholders• Having strong priority planning and performance management processes in place• Taking an active and planned approach to consult with the public• Regularly consult with employees and their representatives |  Principle F: Managing risk and performance <ul style="list-style-type: none">• Ensuring that effective risk management and performance systems are in place, and that these are integrated in our business systems / service units• Having well developed assurance arrangements in place – including any commercial activities• Having an effective Audit Committee• Effective counter fraud arrangements in place |
| |  Principle G: Transparency and accountability <ul style="list-style-type: none">• Having rigorous and transparent decision making processes in place• Maintaining an effective scrutiny process• Publishing up to date and good quality information on our activities and decisions.• Maintaining an effective internal and external audit function |

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Appendix B – Glossary of Terms

Governance Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management - plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Significance The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.

Control environment Overall tone of the organisation. The overall attitude, awareness and actions of directors and management regarding the internal control system and its importance to the organisation.

This tone reflects management style, the attitude, awareness and actions who influence the control consciousness of its people.

Culture and values – how we operate our day-to-day business and make decisions.

Assurance A positive declaration intended to give confidence, a promise. Not **re-assurance** - the action of removing someone's doubts or fears.