

CIPFA Better Governance Forum

Audit Committee Update

-helping audit committees to be effective

Issue 15

- Code of Practice on Managing the Risk of Fraud and Corruption
- The Audit Committee Role in Countering Fraud
- Regular Briefing on Current Developments

December 2014

Introduction

Dear Audit Committee Member,

Welcome to Issue 15 of our briefings for audit committee members in public sector bodies.

It has been produced by the CIPFA Better Governance Forum and is free to our subscribing organisations. Its aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This issue focuses on counter fraud. It includes details on CIPFA's new *Code of Practice on Managing the Risk of Fraud and Corruption* and the supporting *Guidance Notes*. Both are available to download from our website. Also we have included an article about the role of the audit committee in supporting the organisation's work to counter fraud and corruption. To be effective those working directly on counter fraud activities need the support of their organisation's leadership. The audit committee can play a key role providing oversight and support.

I hope you will find this issue helpful. We welcome feedback on these briefings and suggestions for future topics. Please let us know if we are getting them right.

Best wishes

Diana Melville
Governance Advisor
CIPFA Better Governance Forum
Diana.Melville@cipfa.org.uk

Sharing this Document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisation. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Issue	Principal Content	Link
Issues from 2010		
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	Issue 1
2	Reviewing the Annual Governance Statement	Issue 2
3	Countering Fraud	Issue 3
Issues from 2011		
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
Issues from 2012		
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
Issues from 2013		
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014		
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
14	External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a new Counter Fraud Code, Regular Briefing on Current Issues	Issue 14

Workshops and Training for Audit Committee Members in 2015

Police Audit Committees

The Better Governance Forum and Police Network have run workshops for members of police audit committees over the past two years. These workshops provide the opportunity to receive briefings on current issues in policing, audit and governance. The workshops are a practical way to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

3 June and 4 June, London and York

Good Governance for the Audit Committee

Our 2015 audit committee workshops will provide a topical briefing on current issues and focus in particular on the updated framework of good governance, to be launched by CIPFA and Solace during 2015.

2 December Chester, 3 December London. Further dates at York and Birmingham in 2016

Open Training

We will be running a number of open training events for audit committee members. These will cover introductory sessions for new audit committee members and focus on topics for more experienced members. The training sessions will also provide the opportunity for the development of knowledge and skills.

Dates and locations during 2015 to be announced.

In House Training

In house audit committee training tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors
- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- treasury management
- assurance arrangements
- partnership assurance.

For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the [CIPFA website](http://www.cipfa.org).

Receive our Briefings Directly

This briefing will be sent to all contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. Register now, please click here <https://www.cipfa.org/Login>.

CIPFA's New Counter Fraud Code

The *Code of Practice on Managing the Risk of Fraud and Corruption* is now available on the [CIPFA website](#).

The code is principles-based setting out the governance and organisational arrangements an organisation should have in place to counter fraud and corruption effectively. It is a voluntary code but can be used across the public services. It is aimed at an organisation's leadership team and those with a governance role as well as counter fraud practitioners.

The five principles are:

A Acknowledge responsibility

The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.

B Identify risks

Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.

C Develop a strategy

An organisation needs a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action.

D Provide resources

The organisation should make arrangements for appropriate resources to support the counter fraud strategy.

E Take action

The organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.



CIPFA recommends public service organisations adopt the code, applying the principles in a way that is appropriate for its level of fraud risk and organisational arrangements. Local government bodies already consider their counter fraud arrangements when they prepare their annual governance statements and CIPFA recommends that the code is used to support that review.

CIPFA has published *Guidance Notes* to accompany the code and support its implementation. The publication is freely available to subscribers of the Better Governance Forum and can be accessed using the link below.

[Guidance Notes, CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#)

Diana Melville
Governance Advisor, CIPFA Better Governance Forum

The Audit Committee Role in Counter Fraud

The audit committee has a lot to offer the organisation's counter fraud function. It should be one of the key roles of the committee, providing a focal point for fraud risk management. While many do include counter fraud within their committee terms of reference, in practice coverage can be limited to the results of investigations and recommendations for improvement rather than a broader oversight.

CIPFA has set out its recommended approach in its publication [Audit Committees: Practical Guidance for Local Authorities and Police](#) (2013). Key roles for the committee include:

- reviewing the counter fraud strategy and considering whether it meets recommended practices
- championing good counter fraud practice to the wider organisation
- reviewing the fraud risk profile and estimate of fraud losses or potential harm to the organisation and its local community
- reviewing the annual counter fraud plan of activity and resources, seeking assurance that it is in line with the strategy and fraud risk profile
- monitoring the performance of the counter fraud function
- overseeing any major areas of fraud identified and monitoring action plans to address control weaknesses.

This approach helps the audit committee to play a much more proactive role in supporting effective counter fraud arrangements and it is consistent with the approach in the new CIPFA code.

It is the responsibility of the leadership team to determine the organisation's overall approach to counter fraud. By reviewing the assessment of fraud risks, the strategy and performance against the strategy the audit committee will be well placed to offer recommendations to the leadership team on the effectiveness of the strategy in practice.

Where the organisation chooses to adopt the CIPFA code or where it is used by the internal audit team as a basis for their review, the audit committee will be able to see the organisation's strengths and weaknesses against the code. This will provide a helpful assessment to inform the annual governance statement at the end of the year.

To fulfil this role it will be helpful for audit committee members to have an understanding of the main fraud risks that are relevant for their sector. National reports such as [Protecting the Public Purse](#) for local government in England can be helpful, as can the national strategy [Fighting Fraud Locally: The Local Government Fraud Strategy](#) (2012). It is also helpful to see examples of some of the proactive approaches to preventing or detecting fraud. For example:

- delivering fraud awareness training to staff and members of the governing body
- advertising campaigns to raise awareness among the public and encourage reporting of potential fraud
- data analytics to identify anomalies for further investigation
- national programmes such as the National Fraud Initiative.

Key Questions to Ask

Audit committee members should consider their terms of reference and how they currently cover counter fraud. The following key questions are a useful starting point for a more in-depth review.

1. Is our organisation planning to work to the new CIPFA Code?

- | |
|---------------------------------------------------------------------------------------------------------------|
| 2. What are the main fraud risks to our organisation and our service users? |
| 3. Is there clear leadership of counter fraud within the organisation? Are roles clear? |
| 4. Does our organisation have a counter fraud and corruption strategy? What are our plans over the next year? |
| 5. Do we have the capacity and capability in place to deliver our counter fraud and corruption strategy? |

Diana Melville
Governance Advisor, CIPFA Better Governance Forum

The Counter Fraud and Corruption Landscape

CIPFA's Counter Fraud Centre (CCFC) is the UK's national centre of excellence on counter fraud.

The CCFC has taken on the lead for the national counter fraud and anti-corruption tools and services strategy for the public sector as well as providing thought leadership and horizon scanning. The CCFC has also taken responsibility for research, training and generating standards for public sector professionals tasked with addressing the estimated £20.6bn of public sector fraud and error in the UK. The CCFC will provide services within the UK and internationally.

The CCFC launched in July 2014 and is headed by Rachael Tiffen, former Deputy Director of the [National Fraud Authority](#).

The CCFC is providing good practice and support to local authorities including accredited counter fraud training and e-learning tools. The CCFC is now responsible for researching drafting and producing the new Local Government Counter Fraud Strategy for 2015-2018. If you want to know more about the CCFC please contact counterfraudcentre@cipfa.org or visit the [website](#).

Rachael Tiffen
Head of Counter Fraud Centre

Recent Developments You May Need to Know About

Legislation and Consultations

Accounts and Audit Regulations - Consultation

New regulations were issued for consultation in June by the Department for Communities and Local Government (DCLG). These regulations set the requirement for local authorities in England to publish an annual governance statement, set the timetable for the publication of annual accounts and establish requirements for internal audit. The final regulations have not yet been published.

Key areas of change proposed include the following:

- Bringing forward the dates for the preparation, audit and publication of the accounts with effect from 2017/18. The accounts would need to be complete by 31 May (instead of 30 June), and audited and published by 31 July (instead of 30 September).
- Omitting the reference to “proper practices” to underpin the annual governance statement.
- Updating the requirement for internal audit to take into account public sector internal audit standards
- Clarifying internal audit’s access rights. Any officer or member must, if required to do so for the purposes of the internal audit, make available documents and records and supply information and explanations as are considered necessary by internal audit.

Local Audit Regulations – Consultation

As part of the same consultation process DCLG consulted on other regulations relating to the [Local Audit and Accountability Act 2014](#). Of specific interest is the provision for collective audit procurement. This would allow the secretary of state to specify an “appointing person” to organise a large-scale collective procurement of external audit services. If a local authority wished, it could choose this method of procuring external auditors rather than undertaking the procurement directly. In this case an auditor panel would not be required.

The government has just published its response to the consultation for both of the above two areas.

[Consultation on Regulations](#)

Local Audit (Auditor Panel Independence) Regulations 2014

The [Local Audit \(Auditor Panel Independence\) Regulations 2014](#) amend schedule 4 of the [Local Audit and Accountability Act 2014](#) to define what is meant by independent when appointing the auditor panel. These regulations apply to local authority and police bodies when they are establishing an auditor panel. Briefly a candidate would not be considered as independent if they have been an officer, member (or relative or close friend) of the body within the last five years. They should also not be a partner or employee of a prospective auditing firm within the last five years.

Local Authority Accounts (Scotland) Regulations 2014

The [Local Authority Accounts \(Scotland\) Regulations 2014](#) were issued in July and came into force in October. They revoke the 1985 regulations and 1997 and 2011 amendments. They cover a range of responsibilities for financial management and governance, including the annual accounts. The key changes to note include the following:

- The authority must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. Proper practices are identified as the Good Governance Framework from CIPFA.

- The requirement for internal audit is updated to be 'in accordance with recognised standards and practices in relation to internal auditing'. The notes identify the Public Sector Internal Audit Standards as being the recognised standard.
- Requires the annual accounts to include a management commentary, for which further guidance will be published.
- Requires the chief executive and leader to sign the management commentary alongside the proper officer for the financial affairs of the authority.

Code of Audit Practice

The National Audit Office's (NAO) Consultation: Draft Code of Audit Practice for the Audit of Local Public Bodies sets the approach all external auditors of local authorities must follow from 2015. The current code was set by the Audit Commission in 2000. A single code is proposed for audits of both local government and health bodies. Responses to the consultation are available on the [NAO website](#).

Local Government Transparency Code

DCLG have published a new [Local Government Transparency Code](#) for local authorities setting out data that must be published. One new area is a requirement to publish data on fraud investigations and the number and qualifications of fraud investigators employed. The Transparency Code also includes an annex on detecting and preventing fraud, including reference to CIPFA guidance.

Reports, Recommendations and Guidance

Local Government Association Company established to manage external audit contracts

The Local Government Association (LGA) have now established a company, Public Sector Audit Appointments, to take on responsibilities related to local public audit when the Audit Commission closes. It will manage existing audit contracts until 2017.

For details on the current oversight role of the Audit Commission see the last issue of Audit Committee Update, [July 2014](#).

For more information see the [LGA website](#).

Protecting the Public Purse

The Audit Commission has published its last [Protecting the Public Purse](#) report on fraud detected by local authorities in England. During 2013/14 fraud valued at £188m was detected, the highest value ever. The number of cases detected fell by 3%. The report includes further details on different areas of fraud risks and also compares results by authority type and area. The report recommends that councils should use CIPFA's counter fraud code to assess their arrangements.

Whistleblowing in the Public Sector: A Good Practice Guide

The four supreme audit agencies in the UK (Audit Scotland, NAO, Northern Ireland Audit Office and the Wales Audit Office) have jointly issued a guide for workers and employers in the public sector. [Whistleblowing in the Public Sector: A Good Practice Guide](#) includes guidance on developing a good policy and provides a useful checklist. It also sets out to encourage workers to raise concerns.

Financial resilience of public bodies

There have been a number of reports examining the impact of reduced funding on the public services. These reports are of interest to understand the overall impact on a sector and to understand future financial risks. The following links will take you to the reports:

Reports on local government:

- [National Audit Office: Financial Sustainability of Local Authorities 2014](#)
- [Wales Audit Office: Financial Management and Governance in Local Councils 2012-13](#)
- [Northern Ireland Audit Office: Local Government Audit Report 2014](#)
- [Grant Thornton: Rising to the Challenge](#)

Reports on health:

- [National Audit Office: The Financial Sustainability of NHS Bodies](#)
- [Wales Audit Office: NHS Wales: Overview of Financial and Service Performance 2013-14](#)
- [Audit Scotland: The NHS in Scotland 2013/14](#)
- [The King's Fund: Financial Failure in the NHS](#)
- [Monitor: NHS Foundation Trusts: Quarterly Performance Report](#)

School governance

The NAO has issued a report, [Academies and Maintained Schools: Oversight and Intervention](#), which looks at how effectively oversight and intervention work in the schools sector. The report identifies failings in relation to both maintained schools and academies. One of the conclusions of the report is that the Department for Education and the Education Funding Agency do not know enough about school-level governance to identify risks.

Procurement and contract management risks

The Better Governance Forum has produced a [Briefing on Reviews on Public Sector Procurement and Contract Management](#) which summarises key issues that have emerged from a number of reports on procurement and contract management in the public sector. It provides an overview of common areas of weakness and recommendations for improvement that have come from a number of authoritative bodies such as the National Audit Office and the Local Government Association.

Look out for

During 2015 CIPFA will be reviewing the CIPFA/SOLACE Framework of Good Governance for Local Government. The framework underpins the annual governance statement at the year end. Look out for more news and the consultation during 2015.

CIPFA is also planning on drafting guidance on behalf of DCLG on auditor panels that will have the responsibility for overseeing the procurement of external audit services for local authorities. This will be useful for authorities who want to establish their own auditor panel or to set up a joint auditor panel with other authorities.



Published by:
CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY
3 Robert Street, London WC2N 6RL

www.cipfa.org.uk

©2014 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher. While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.



Diana Melville
Governance Advisor
Better Governance Forum
CIPFA
3 Robert Street
London, WC2N 6RL
Tel: 01722 349398
diana.melville@cipfa.org
www.cipfa.org



Certificate No.