



The Chartered Institute of
Public Finance & Accountancy

CIPFA Better Governance Forum
CIPFA Counter Fraud Centre

Audit Committee Update

– helping audit committees to be effective

The Audit Committee Role in Supporting Counter Fraud and Anti-corruption

Regular Briefing on New Developments

March 2019

Dear Audit Committee Member,

I hope you find this issue helpful and informative.

CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit. These briefings are one of the ways that we provide support direct to audit committee members.

The focus for this issue is providing support and oversight for the organisation's counter fraud and anti-corruption arrangements. The audit committee can make a helpful contribution to the fight against fraud by helping to ensure that public bodies' arrangements are fit for purpose and that fraud risks are recognised and acted on. Improving resilience to fraud will help to safeguard public money and services and give greater confidence to citizens and service users that resources are used effectively. We are making this issue available to the audit committees of our [CIPFA Counter Fraud Centre](#) members as well as Better Governance Forum members.

All our resources for audit committees are signposted on our website: www.cipfa.org/services/support-for-audit-committees, including the Position Statement on Audit Committees in Local Authorities and Police.

Best wishes

Diana Melville
Governance Advisor
CIPFA

Sharing this document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. 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.

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Receive our briefings directly

This briefing will be sent to the main contact 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. To register now, please visit www.cipfa.org/Register.

Previous issues of Audit Committee Update

Members of organisations that subscribe to the CIPFA Better Governance Forum can download all the previous issues from the website. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
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	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
Issues 14 and 15, the content in these issues has been replaced by more recent issues.	
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21
Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	Issue 23

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Developing an Effective Annual Governance Statement	Issue 25
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Issues from 2019	
Focus on Local Audit National Audit Office Report: Local Authority Governance	Issue 27

Workshops and training for audit committee members in 2019 from CIPFA

Introduction to the knowledge and skills of the audit committee

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- 19 September, Leeds
- 16 October, London
- 17 October, Birmingham

Development day for police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- Dates to be confirmed

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, internal audit developments and other key topics.

- 13 November, London
- 5 December, Birmingham

Other dates in late 2019 or early 2020 will be announced later in the year.

The above events can all be accessed using prepaid places for the CIPFA Better Governance Forum. CIPFA events information and dates will be available on the [website](#) in due course.

In-house training and facilitation

In-house audit committee training and guidance 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
- assurance arrangements
- improving impact and effectiveness.

For further details, contact our [in-house training team](#) or email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

New development from 2019: support for councillors in local authorities

CIPFA is working with the Centre for Public Scrutiny to provide events and resources to support councillors in their roles. Events will be half-day sessions at a range of locations. Topics include financial reporting, governance and procurement.

The following events are now open for booking:

Understanding your Council's Financial Reporting Requirements

This new CIPFA network workshop is designed specifically to provide elected members with greater insight into the financial reporting requirements of their authority, giving them the knowledge and confidence to deliver effective engagement, scrutiny and challenge of the statement of accounts as part of their overall governance role.

- [30 May, London](#)
- [5 June, Leeds](#)

Ensuring Good Governance in Decision Making and Delivery of Council Services

This event will introduce the key elements of local authority governance, including the principles of good governance, the importance of culture and ethics, and lessons to be learned from governance failures.

- [19 June 2019, London](#)
- [20 June 2019, York](#)

Please note these events cannot be booked using a network subscription prepaid place.

The Audit Committee Role in Counter Fraud

Introduction

Counter fraud is an important part of an organisation's governance, risk management and internal control arrangements. It therefore sits squarely within the remit of the audit committee. In the public sector there is strong expectation of stewardship of public money, public accountability and effective use of resources, so helping to ensure that the organisation is more resilient to the risks of fraud and corruption is an important responsibility.

Whilst most audit committees have some oversight of fraud and corruption, sometimes this can be limited to reports on investigations undertaken. It is more effective for the audit committee to have a wider understanding of fraud and corruption risks and to have oversight of the full range of anti-fraud and corruption activity. This briefing will expand on the role of the audit committee and help understanding about the exposures to fraud and corruption and the need to ensure robust arrangements are in place.

Understanding your fraud and corruption risks

Fraud and corruption are risks experienced by all organisations, but the experience and exposure to fraud and corruption varies according to a number of factors.

- The types of fraud to which an organisation may be vulnerable will vary according to the type of services it provides.
- Fraud and corruption trends will change over time and may be more significant for some organisations over others.
- The strength of an organisation's internal control environment will be a significant factor when considering its vulnerability to fraud.
- The strength of an organisation's governance arrangements, particularly ethical standards, will be important in developing an anti-fraud culture and ensuring appropriate behaviours are in place amongst both staff and the governing body.
- Awareness of fraud risks and warning signs amongst staff, together with appropriate arrangements for raising concerns, will influence whether potential fraud or corruption is reported for investigation.
- Whether an organisation has adequate arrangements in place to support both proactive anti-fraud and corruption work and investigations of referrals will influence whether and how quickly fraud is detected, investigated and brought to an appropriate resolution.

Within the public services there are surveys and analysis that provide insight into the types and levels of fraud experienced. CIPFA's [Fraud and Corruption Tracker](#) (CFaCT) provides an analysis based on actual fraud detected and prevented by local authorities in the UK. The most recent report found that the total value of fraud detected or prevented in 2017/18 was £302m. Housing fraud (including illegal sub-letting and abuse of right to buy) accounted for 71.4% of the value of fraud, as each individual case can be substantial, though there are differences in how authorities calculated the 'worth' of the frauds they experienced. Other types of fraud account for a much higher volume of activity with council tax fraud (such as falsely claiming a single person discount or other reduction) accounting for 70% of cases.

The [National Fraud Initiative](#) is a data matching programme led by the Cabinet Office and the lead audit bodies of Scotland, Wales and Northern Ireland. Results from the latest exercise were that £301m in fraud, overpayments and errors were identified and prevented.

In central government the Cabinet Office leads on initiatives to support counter fraud arrangements. A [recent report](#) on the level of detected fraud within central government and health was £119m. This excludes tax and welfare frauds.

Some fraud risks can come from within the organisation itself. Examples could include the abuse of the procurement process or manipulation of financial systems to secure illegal payments. A few recent examples illustrate the potential sophistication or scale of an internal fraud:

- The London Borough of Barnet suffered a fraud valued at £2m as a result of the abuse of systems by an employee of a contracted service provider. [See press report.](#)
- A business rates officer at Rochdale Borough Council abused his position to obtain £80,000. [See press report.](#)
- The former head of Westminster Council’s pension fund was jailed for seven years after stealing more than £1m from the authority. [See press report.](#)

Ensuring your organisation has robust arrangements

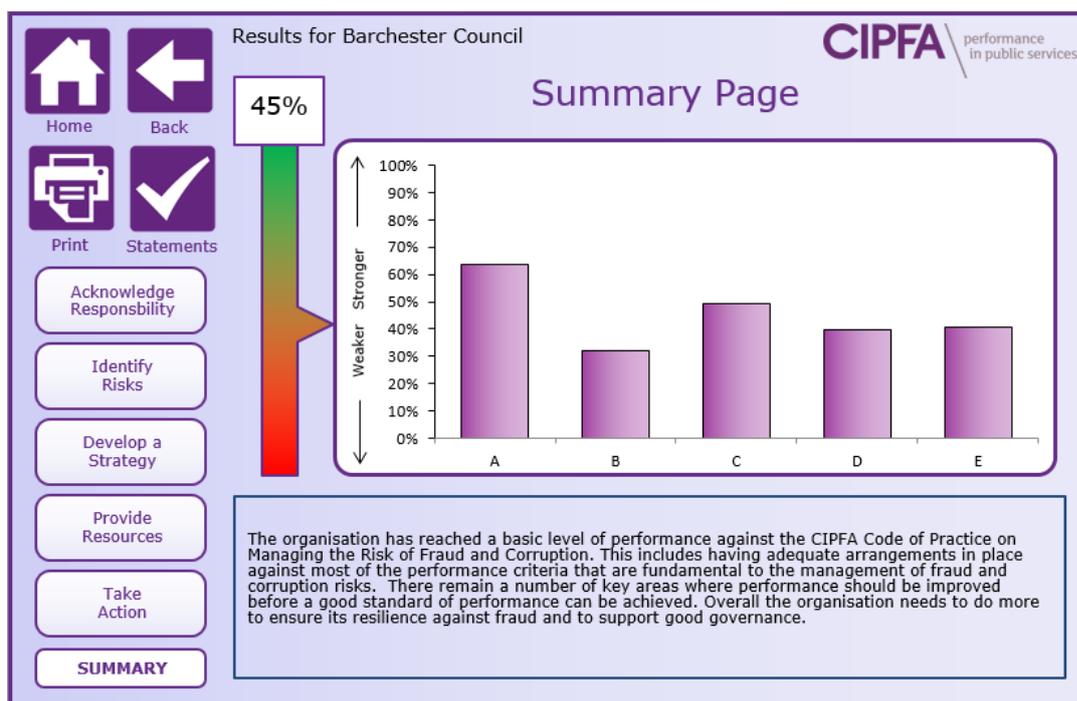
The [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) can be downloaded from the CIPFA website. It sets out the arrangements a public sector organisation should have in place to maintain resilience to fraud and support good governance.

The Code has five principles:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.



As part of your membership of the CIPFA Better Governance Forum or CIPFA Counter Fraud Centre, we have made available to your organisation a tool that assesses your arrangements against the CIPFA Counter Fraud Code and helps to identify areas for improvement. This includes a reporting function to facilitate easy reporting of results to senior management and the audit committee. The chart below provides an example of the assessment report.



The audit committee's role

CIPFA's guidance, [Audit Committees, Practical Guidance for Local Authorities and Police](#), sets out the key responsibilities of the committee in relation to fraud and corruption. However, it is also important to recognise that the wider work of the audit committee in supporting effective governance, risk management, internal control and audit arrangements also contributes to the organisation's resilience to fraud.

Committee members should be aware of the recommended best practice for their sector. The [CIPFA Code of Practice on Managing the Risk of Fraud and Corruption](#) sets standards for effective counter fraud arrangements within public sector organisations. There are also reports and strategies that are specific to individual sectors such as The Government Counter Fraud Profession for central government, Fighting Fraud and Corruption Locally for local authorities and Integrity Matters by HMICFRS.

All organisations should have a counter fraud and corruption strategy that sets out plans and objectives to address risks. The audit committee should review the strategy when it is introduced, comment on the plans and monitor the activity. It is helpful to bring a fraud risk assessment before the committee so that it is sighted on the key areas of risks and trends. This provides a useful context when reviewing the strategy.

When reviewing the activity of the counter fraud function, the committee should be made aware of any resourcing issues and improvement plans. If an assessment of the effectiveness of counter fraud arrangements has been undertaken, the results should be shared with the audit committee. Internal audit may also provide some assurance over the management of fraud risks. There is guidance to internal auditors on providing assurance in accordance with the Public Sector Internal Audit Standards: [The Internal Audit Role in Counter Fraud](#).

If your organisation does suffer a significant fraud then the committee should support a constructive review to identify the control failures and make improvements. The organisation should learn from the incident, and the audit committee is well placed to ensure that this happens.

CIPFA's guidance on the Annual Governance Statement (AGS) recommends that the adequacy of counter fraud arrangement is included in the annual review. The audit committee should consider whether there are any significant issues arising from the review that should be included in the AGS and action plan.

Overall, the audit committee is well placed to support the development of adequate counter fraud and anti-corruption arrangements as part of their role to support good governance and robust internal controls.

Key questions to ask

1	Has a fraud and corruption risk assessment been undertaken and what are the key risks for our organisation?
2	How effective are our counter fraud arrangements? Has a self-assessment or audit been carried out?
3	How do we make sure that staff are aware of warning indicators of fraud and know how to raise concerns or seek advice?
4	Does a member of the governing body take a lead role in promoting ethical behaviour and supporting counter fraud and corruption initiatives?
5	Does the audit committee focus on overall arrangements and the strategy or has it principally focused on individual investigations?

Diana Melville
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Recent developments you may need to know about

Consultations

CIPFA Financial Management Code

CIPFA is currently consulting on a new code of practice. The Financial Management Code will for the first time set standards of financial management for local government in the UK.

The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- manage short, medium and long-term finances
- manage financial resilience to meet foreseen demands on services
- manage unexpected shocks in their financial circumstances.

Demonstrating compliance with the CIPFA FM Code will be the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

The consultation is open until 30 April 2019. The consultation draft and response form is available on the [CIPFA website](#).

Reports, recommendations and guidance

CIPFA Statement on the Role of the Head of Internal Audit

The 2019 edition of the CIPFA Statement will be published on 9 April. The statement sets out five principles that define the role and sets out the responsibilities of the organisation and the head of internal audit to ensure the role meets the standard. The support of the audit committee is a critical factor helping to ensure that professional standards can be met and that there are appropriate reporting relationships in place.

To mark the launch of the Statement, a [free networking event](#) is taking place at CIPFA's base in Mansell Street London. The launch will feature CIPFA Vice President Carolyn Williamson and Chief Executive Rob Whiteman and a panel of heads of internal audit. The event is open to audit committee members, internal auditors and members of leadership teams. For more details and to book online please see the CIPFA website.

Local Government Application Note

CIPFA has updated its [Application Note](#) that accompanies the Public Sector Internal Audit Standards for internal auditors in local government. Internal audit should follow this as well as the standards. The publication includes a checklist to support evaluation against the standards, which is a key part of the internal audit's quality assurance and improvement programme.

As part of their annual opinion on governance, risk management and internal control, the head of internal audit should report on the results of the quality assurance and improvement programme to the audit committee. This should include the results of the external assessment, which must take place at least once every five years.

Reviewing the Annual Governance Statement (AGS)

Local government bodies are required to publish an AGS alongside their financial statements each year. The audit committee plays an important role in the process, considering how effective the governance arrangements have been in the year and reviewing the AGS itself prior to approval and publication.

Issue 25 of Audit Committee Update provided advice and support to audit committees in this role. A copy can be downloaded from the [CIPFA website](#).

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

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