



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 25 February 2015
My Ref: BH/ESPO
Please ask for: Ben Holihead
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Wednesday, 4 March 2015 at 10.30 am in the Framland Committee Room, County Hall, Glenfield. Leicestershire.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

for Consortium Secretary

AGENDA

<u>Item</u>	<u>Pages</u>
1. Minutes of the meeting held on 4 December 2014.	(Pages 3 - 8)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	
3. Declarations of interests in respect of items on this agenda.	
4. Items referred by the Finance and Audit Subcommittee.	

There are no specific items referred. The issues considered by the Subcommittee are covered in items 7, 8 and 12 which appear elsewhere on the agenda.

5. Director's Progress update. (Pages 9 - 14)
 Report of the Director.
The Chairman will also be asked to consider item 10 on the agenda, which contains exempt information, alongside this item.
6. Internal Audit Charter. (Pages 15 - 32)
 Report of the Consortium Treasurer.
7. Governance Over Managing the Risk of Fraud. (Pages 33 - 44)
 Report of the Consortium Treasurer.
8. Date of Next Meeting.
 The next meeting is scheduled to take place on Wednesday 24 June 2015 at 10.30am at County Hall, Glenfield.
9. Any other items which the Chairman has decided to take as urgent.

The public are likely to be excluded from the meeting during the consideration of the following items of business in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972.

10. Supplementary Information informing the Director's Progress update. (Pages 45 - 52)
 Joint report of the Director and Consortium Treasurer.
 (Exempt under paragraphs 3 and 10 of Schedule 12(A)).
11. Forecast Outturn 2014/15 and draft MTFS 2015/16 - 2018/19. (Pages 53 - 72)
 Joint report of the Director and Consortium Treasurer.
 (Exempt under paragraphs 3 and 10 of Schedule 12(A)).
12. Updated Strategy Report. (Pages 73 - 150)
 Report of the Director.
 (Exempt under paragraphs 3 and 10 of Schedule 12(A)).



Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Thursday, 4 December 2014.

PRESENT

Mr. J. Clarke CC (in the Chair)

Dr. R. K. A. Feltham CC
Mr. G. A. Hart CC
Mr. J. Holdich CC
Mr. I. Monson CC

Mr. D. Parsons CC
Mrs. S. Ransome CC
Mrs. S. Rawlins CC

99. Councillor John Reynolds.

The Chairman reported the death of Councillor John Reynolds.

John was elected to Cambridgeshire County Council in May 1981 and served on their Cabinet having previously served as the Deputy Leader of the Council.

John was appointed to serve on the ESPO Management Committee in 2008 and chaired the Management Committee in 2008 and then again in 2014/15. He also served on the ESPO Finance and Audit Subcommittee and chaired the Subcommittee from 2012 to 2014 and was instrumental in shaping the new governance arrangements at what was a particularly difficult time for ESPO.

Mr Holdich CC, who served with John on Cambridgeshire County Council, spoke of high regard that all members had for John. He also mentioned the charitable work John undertook for the Guide Dogs for the Blind Association by looking after trainee puppies.

Members and officers stood in silent tribute to the memory of John Reynolds.

100. Apologies.

Apologies were received from Mr. D. Seaton CC (Peterborough City Council).

101. Minutes of the previous meeting.

The minutes of the meeting held on 25 September 2014 were taken as read, confirmed and signed.

102. Urgent items.

The Chairman advised that there was one urgent item for consideration;

a report of Pricewaterhousecoopers (PwC): "External Audit Plan – 2014/15". He advised that, with the consent of Members, he intended to vary the order of business from that set out on the agenda and to take this as item 6.a (minute 106 below).

103. Declarations of interests.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

104. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee.

105. Change to the order of business.

The Chairman, with the consent of the Committee, confirmed a change to the order of business to that set out on the agenda.

106. External Audit Plan - 2014/15.

The Committee considered this matter, the Chairman having decided it was of an urgent nature, in view of the need to agree the audit plan going forward.

The Committee considered the External Audit Plan – 2014/15 presented by Catherine Bru from Pricewaterhousecoopers (PwC). The report outlined potential areas of audit risks, the audit timetable, and the fees charged for auditing.

The Plan presented was similar to the previous plan with some minor changes being made. The increased risk outlined last year due to changes in the warehouse management system had now been removed due to the planned changes having been progressed.

RESOLVED:

That the report be noted.

107. Proposed Changes to the Contract Procedure Rules.

The Committee considered a report of the Director outlining the operation of the Contract Procedure Rules between 1 July 2013 and 30 June 2014 and seeking approval of the proposed amendments to the Contract Procedure Rules for 2014/15.

Arising from discussion the following points were noted:-

- (i). The proposed changes to the Rules outlined in the report were a result of changes being made at ESPO and in wider procurement regulations. As ESPO was moving towards using more E-Tendering processes it was necessary for the Rules to reflect this. At a wider level the

proposed amendments also reflected changes being made to EU procurement regulations;

- (ii). It was reported that the appendix set out the Contract Procedure Rules applied at Leicestershire County Council and that these would be reflected in the revised ESPO Contract Procedure Rules.

RESOLVED:

- (a). That the proposed amendments to the Contract Procedure Rules for 2014/15 be approved;
- (b). That a revised appendix setting out the Contract Procedure Rules as they are applied at ESPO be circulated to members.

108. Director's Progress Update.

The Management Committee gave consideration to a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 25 September 2014. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

Arising from discussion the following points were noted:-

- (i). Sales to October 2014 were behind target primarily due to gas sales. As the margin was very low, this will have a minor impact on the forecast surplus. The rebate income was significantly higher than had been budgeted. Overall surplus amount was on track;
- (ii). The need for a seasonal relief warehouse facility was being explored with neighbouring businesses;
- (iii). Norfolk, Leicestershire, Warwickshire, Cambridgeshire and Lincolnshire had agreed to take part in a spend analytics programme which would highlight areas of potential savings. The Committee was informed that this was progressing well subject to agreement being reached by the participating authorities to share data;
- (iv). The staff survey had recently concluded with a response rate of approximately 60% which was encouraging. The emerging themes from this would be fed into the ESPO change programme. Concern had been raised regarding satisfying customer demand during busy periods in both the staff survey and in recent All-Staff Briefings;
- (v). ESPO had recently received positive coverage in the Leicester Mercury on 18 November. The article outlined the history and ethos of ESPO, and followed on from coverage on East Midlands Today earlier in the year. The article was requested to be circulated to members.

RESOLVED:

Members noted the contents of the report.

109. Change to the order of business.

The Chairman, with the consent of the Committee, confirmed a change to the order of business to that set out on the agenda.

110. Exclusion of the public.

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting for the items shown below, on the grounds that it will involve the likely disclosure of exempt information, and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information during consideration of the following items of business:

'Item 11 - Supplementary Information Informing the Progress Report of the Director's Progress Update' and 'Item 12 - Strategic Discussion Document to Inform MTFs Assumptions for 2015-19' (exempt under paragraphs 3 and 10 of Schedule 12A of the Act).

111. Supplementary Information Informing the Progress Report of the Director's Progress Update.

The Management Committee received an exempt report from the Director, which set out supplementary exempt information to his Progress Update (minute 108 refers). A copy of the exempt report, marked 'Agenda Item 11' is filed with these minutes.

The exempt report was not for publication by virtue of paragraph 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

That the contents of the report be noted.

112. Strategic Discussion Document to Inform MTFs Assumptions for 2015-19.

The Subcommittee received an exempt report of the Director and Consortium Treasurer setting out the assumptions being considered for the MTFs covering the period 2015-19. A copy of the exempt report, marked 'Agenda Item 12', is filed with these minutes.

The exempt report was not for publication by virtue of paragraph 3 and 10 of Section 12A of the Local Government Act 1972.

A member of the Committee expressed concern that the MTFs was predicated on an increase in prices. He queried the advisability of this as this would impact on already pressed schools and other public sector bodies. The Director noted the concern but drew attention to the benchmarking figures regarding pricing set out in the report, and indicated that the impact of any price changes would be monitored.

RESOLVED:

- (a). Members noted the contents of the report;
- (b). That the Director update members with progress against the report.

(THE MEETING THEN RECONVENED INTO PUBLIC SESSION).

113. Dates of Future Meetings.

RESOLVED:

The following dates were approved:

- 4 March 2015, 10.30am – County Hall
- 24 June 2015, 10.30am – County Hall
- 23 September 2015, 10.30am – ESPO
- 4 December 2015, 10.30am – County Hall

10.30 am - 11.50 am
04 December 2014

CHAIRMAN

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ESPO MANAGEMENT COMMITTEE – 4 MARCH 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Briefing Note

1. The purpose of this update is to inform members of the actions and progress made since the last ESPO Management Committee meeting held on 4 December 2014.

Overall Financial Performance

2. Overall financial performance for the nine months to December 2014 can be summarised as:
 - Sales to December at £65.9m are behind budget of £71.4m principally due to lower Gas sales which are weather dependant (see table below);
 - Rebate income is £3.1m compared to a budget of £2.1m and a prior year of £2.8m, indicating a continued engagement in ESPO's procurement solutions;
 - Overall surplus is ahead of budget by £223K YTD but behind last year by £364k indicating that the guidance given to Management Committee in December of a year-end surplus of between £2.0m and £2.2m still stands.
3. Key figures underlying the total sales to December 2014 are as follows:

	<u>YEAR TO DATE</u>		
	ACTUAL £m	BUDGET £m	PRIOR YEAR £m
<u>SALES</u>			
STORES	33.394	34.029	32.428
DIRECT	15.290	15.106	16.932
GAS	13.311	19.082	16.240
CATALOGUE ADVERTISING	.740	.879	.870
REBATE INCOME	3.127	2.124	2.774
MISCELLANEOUS INCOME	.085	.139	.159
<u>TOTAL SALES</u>	<u>65.947</u>	<u>71.359</u>	<u>69.403</u>

4. Obsolete stock, valued at £20k, has been written off. £4k has been recovered by passing the goods onto the Mondial Logistics & Overseas General Trading LLC. Some of this stock was over twenty years old and clearing it from our warehouse enables us to invest in faster moving lines.

5. A Forecast Outturn report is included separately on this agenda.

Balanced Scorecard

6. The balanced scorecard is attached as Appendix 1.

External Activities and Developments

PBOs, Pro5 members and beyond

7. Officers from Peterborough, Leicestershire and Warwickshire attended the EU Procurement training session sponsored by ESPO on the final session held 11 December 2014. Additional officers, including those from Cambridgeshire, attended sessions earlier in the year. Delegate feedback indicated that the training was well received.
8. Following a discussion with a Department for Education (DfE) officer at the Academies Show in November, I met with Mark Wallbank, their Head of Schools Commercial Team, to foster a positive relationship and explore mutual objectives. We have agreed to meet regularly to forge a more strategic relationship and to challenge some of the ways that the education sector is served from a procurement perspective.
9. 2015 will mark the end of the Pro5 brand but an exciting new era for public sector buying organisations in response to key objectives outlined in the National Procurement Strategy. With strategic partnerships and collaborative working becoming more of a standard process across the public sector, this decision will allow founding members Yorkshire Purchasing Organisation (YPO), North East Procurement Organisation (NEPO), Central Buying Consortium (CBC) and ESPO the opportunity to engage more widely with other organisations. Collaboration with Crown Commercial Service (CCS) will continue to play an integral part of partnership working in the best interests of the public sector.
10. Plans are currently in place for the development of a national public sector procurement forum to share best practice and continue to bring more collaboration to the sector. This will be rolled out at an event to be hosted jointly by ESPO and YPO which is scheduled for 30 March 2015.

ESPO Internal Developments

Member Liaison

11. I continue to meet members on a quarterly basis to discuss key themes which are arising and any items pertinent to members' specific needs. We discussed the MTFS assumptions and change programme as outlined above.

Sales & Marketing

Campaigns, activities and newsletters

12. ESPO will be attending the three-day Education Show 19 – 21 March at the NEC, Birmingham. This is a major event within the education calendar and will be used to launch the new 2015/16 ESPO Catalogue.
13. ESPO, in partnership with the National Association of School Business Management (NASBM), will be hosting a series of procurement workshops aimed at school business managers throughout February and March. The key focus will be on demonstrating how procurement can be made easier, and the free procurement support that is available from ESPO.
14. The spring-term edition of Education Update has been circulated to all schools with the publication focusing on furniture deliveries, ESPO prices and frameworks.
15. A 10% off promotion on exercise books and paper was launched to encourage early orders from customers during the start of 2015, and helps us compete against competitor new catalogue launches. Early results are encouraging.
16. A meeting was held 18 February with NPS Wales discussing a strategic partnership which may create the opportunity to channel Wales public sector spend through ESPO frameworks. The shape and principle of any NPS partnership still needs to be determined and agreed.

2015 ESPO catalogue

17. Work on the new ESPO 2015 catalogue is almost complete with final page proofs and minor amends now being made. 50,000 catalogues will be sent to print on 20 February, ready for ESPO launch event mid-March.
18. Catalogue prices have now been agreed. These reflect ESPO's overall target and focus on increasing Stock and Direct revenues. The team has successfully managed to achieve the difficult mix of minimising the level of price increases and increasing margins across the full product range.

Customer Service

19. As part of the change programme, the order acknowledgment and delivery despatch project has been rolled out to 3,500 schools. A review of the catalogue product range has removed more than 500 single or slow-moving lines to improve margins and profitability. A number of trials are underway testing the delivery profiles to schools and the training of our customer services team has been completed.
20. In addition to our customer survey, a trial with the online Feefo customer review system has been completed. This allows customers to rate and comment on ESPO's service delivery, product quality and prices. This has proved to be successful in tracking key complaint areas, benchmarking our service and creating dialogue with customers. Plans are being made to roll this out across all areas.

21. Plans to implement the customer relationship management (CRM) system across Customer Services are being made. Developments will capture key complaint areas, document calls and track customer call types. It is expected to be introduced during March.

ESPO Risk and Governance Update

Corporate Risk Register

22. Some Major Risk Records have been reviewed in this quarter but there has been no increased risk associated with these updates.

Audit Reports

23. There has been one audit report issued in the quarter in response to an issue arising from the handling of staff purchases. The recommendations have been accepted and are in the process of being implemented.

Resources Implications

24. None arising directly from this report.

Recommendation

25. Members are asked to note the contents of the report.

Officer to Contact

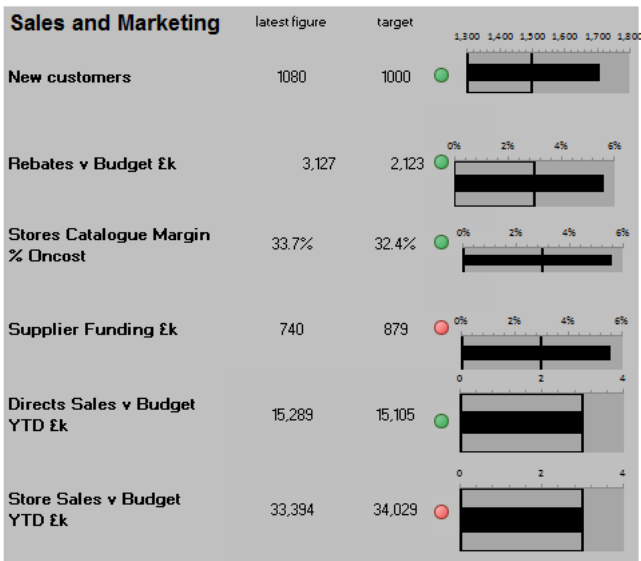
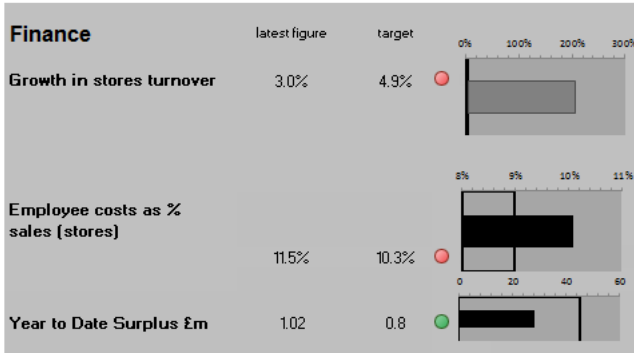
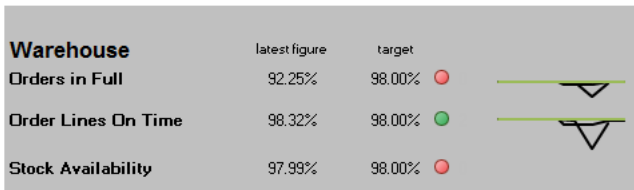
John Doherty, Director
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Appendices

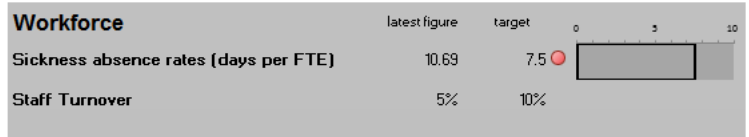
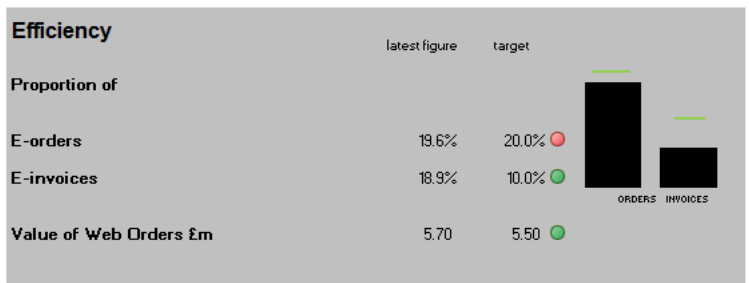
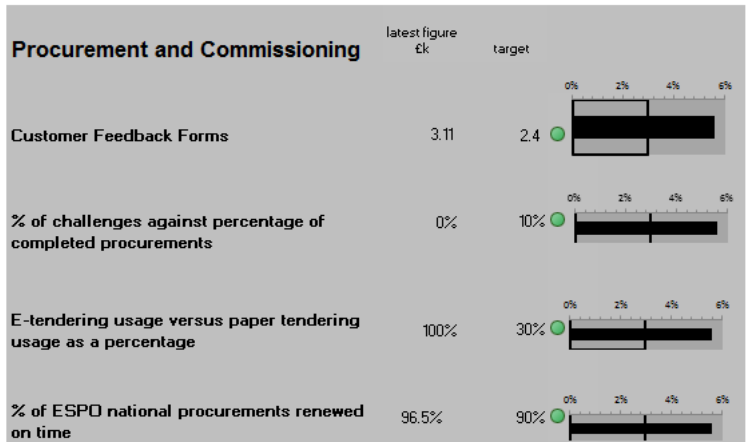
Appendix 1: Balanced scorecard

Appendix 1

Balanced Scorecard



A= All S= Stores D= Directs E=Energy & Fuels
 F= Frameworks C= Consultancy M= Major Projects



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ESPO MANAGEMENT COMMITTEE – 4 MARCH 2015

AGENDA ITEM NO.7

REPORT OF THE CONSORTIUM TREASURER

THE INTERNAL AUDIT CHARTER FOR ESPO

Purpose of Report

1. The purpose of this report is for the Management Committee to: -
 - a) approve the Internal Audit Charter for ESPO
 - b) note progress against implementing a Quality Assurance and Improvement Programme (QAIP) for the internal audit activity.

Background

2. A professional, independent and objective internal audit service is recognised throughout the UK public sector as a key element of good governance. The foundation of an effective internal audit service is compliance with standards, and the implementation of, and adherence to, effective practices.
3. The 'Relevant Internal Audit Standard Setters' in the UK (for which CIPFA represents local government), have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - a) Definition of Internal Auditing
 - b) Code of Ethics
 - c) International Standards for the Professional Practice of Internal Auditing
4. Additional requirements and interpretations for the UK public sector have been inserted into the PSIAS. All principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.

5. The objectives of the PSIAS are to: -
 - a) define the nature of internal auditing within the UK public sector
 - b) set principles for carrying out internal audit in the UK public sector
 - c) establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d) establish the basis for the evaluation of internal audit performance and to drive improvement planning

The Internal Audit Charter for ESPO

6. The PSIAS mandate that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). Leicestershire County Council is the appointed Servicing Authority for ESPO, and is responsible for performing the functions set out in Schedule 3 of the Consortium Agreement, including under 'Support Services' the provision of internal audit service. The Charter establishes Leicestershire County Council's Internal Audit Service (LCCIAS) position with ESPO and the associated governance arrangements, including the nature of the HoIAS' functional reporting relationship with both the Finance and Audit Subcommittee (the Subcommittee) and Management Committee (the Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
7. Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For ESPO, consultations with the Director of ESPO, the Consortium Secretary and the Consortium Treasurer i.e. the three Officers with delegated functions within the Consortium Agreement, interpreted the terms 'Board' as the Finance and Audit Subcommittee (the Subcommittee); 'Senior Management' as the three Officers i.e., collectively known as (the Officers), and the 'Chief Audit Executive' as Leicestershire County Council's Head of Internal Audit Service (HoIAS).
8. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a statement of roles, responsibilities and relationships for review and acceptance by the Officers and the Subcommittee, as approved by this Committee.
9. A Charter also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility, which establishes the role of LCCIAS and whether it continues to be adequate to enable it to accomplish its objectives. If a question should arise, the Charter provides a formal, written protocol agreed with the Officers and the Subcommittee about ESPO's internal audit activity.

10. The PSIAS mandate that the Internal Audit Charter for ESPO should:-
- a) recognise the mandatory nature of the PSIAS
 - b) define the scope of internal audit activities recognising that internal audit's remit extends to the organisation's entire control environment not just financial controls
 - c) establish internal audit's responsibilities, objectives & organisational independence
 - d) establish accountability, reporting lines and relationships between the leader of the internal audit activity and those to whom they report functionally and administratively
 - e) set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies
 - f) establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

Additional public sector requirements also specify that the Charter must:-

- g) define the terms 'board' & 'senior management' in relation to internal audit activity
 - h) cover the arrangements for appropriate resourcing
 - i) define the role of internal audit in any fraud-related work
 - j) include arrangements for avoiding conflicts of interest if non audit activities are undertaken
11. In developing the Charter, the HoIAS has taken full account of the detailed requirements of the PSIAS and also a Local Government Application Note (LGAN) developed by CIPFA, which provides further explanation for the PSIAS and practical guidance on how to apply them. The Charter has 6 distinct sections:-

<u>Section</u>	<u>Content</u>
1	Introduction
2	Purpose (PSIAS definition of the internal audit activity)
3	Definitions (including the Board and Senior Management)
4	Authority (afforded to the internal audit activity)
5	Responsibility (the Subcommittee, the Officers and the HoIAS)
6	The scope of the internal audit activity (including its roles in fraud and corruption)

12. The HoIAS has interpreted that many of the detailed PSIAS requirements merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approaches to internal audit activity. Those intricate details are not repeated in the Charter but new requirements, extensions and variations are explained.

13. The Charter replaces two documents that previously explained the internal audit activity at Leicestershire County Council, 'The Statement of Aims and Objectives' and 'The Strategy of Leicestershire County Council Internal Audit.
14. At its meeting on 23 February 2014, the Subcommittee reviewed the Internal Audit Charter for ESPO (which is included as Appendix 1) and recommended that it is approved by Management Committee.

Brief update on the development of the Quality Assurance and Improvement Programme

15. A Quality Assurance and Improvement Programme (QAIP) is being developed by the HoIAS. The QAIP is designed to enable an evaluation of LCCIAS' conformance with the PSIAS, assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The QAIP is scheduled to be approved by the Council's Chief Financial Officer. There is not a requirement for an organisation's Board (the Subcommittee) to formally approve the QAIP, only to receive results of future assessments against it. Nevertheless, progress against the development of the QAIP and its approval will be reported to the Subcommittee.

Resource Implications

16. The determination of resource to undertake internal audit activity is referred to at various points throughout the Charter

Equal Opportunities Implications

17. There are no discernible equal opportunities implications resulting from the audits listed.

Recommendations

18. That the Committee approves the Internal Audit Charter for ESPO

Background Papers

Report to the Finance and Audit Subcommittee 10 June 2014 – Progress against the Internal Audit Plan 2013/14

Report to the Management Committee 25 September 2014 – Draft Statement of Accounts and Annual Governance Statement

Report to the Finance and Audit Subcommittee 17 November 2014 – Progress against the Internal Audit Plan 2014/15

Report to the Finance and Audit Subcommittee 23 February 2015 – Internal Audit Charter

Officer to Contact

Neil Jones, Head of Internal Audit Service

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Appendices

Appendix 1 – The Internal Audit Charter for ESPO

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The Internal Audit Charter for ESPO : Contents

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Introduction

- 1.1. The Eastern Shires Purchasing Organisation (ESPO) is a Joint Committee set up under section 102 of the 1972 Local Government Act. Leicestershire County Council (the Council) is the appointed Servicing Authority, and is responsible for performing the functions set out in Schedule 3 of the ESPO Consortium Agreement, including under 'Support Services' the function of internal audit.
- 1.2. The Public Sector Internal Audit Standards 2013 (the PSIAS), provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass both the mandatory elements of the Global Institute of Internal Auditors (IIA) standards, and also additional requirements and interpretations for the UK public sector. A Local Government Application Note (LGAN) developed by CIPFA provides further explanation for the PSIAS and practical guidance on how to apply them.
- 1.3. The PSIAS mandate that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), that is consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. Responsibility for, and ownership of, the Charter remains with the organisation and final approval of the Charter resides with the Board (the definition is explained in paragraphs 3.12 to 3.14 below).
- 1.4. This Charter replaces two documents that previously explained the internal audit activity at the Council, 'The Statement of Aims and Objectives' and 'The Strategy of Leicestershire County Council Internal Audit'.

2. Purpose

- 2.1. The purpose of the internal audit activity is explained by the PSIAS Definition of Internal Auditing: -

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

- 2.2. The LGAN further explains that '*the organisation (ESPO's management) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (known as the control environment). Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.*

2.3. Leicestershire County Council Internal Audit Service (LCCIAS) has adopted the PSIAS definition of internal auditing.

3. Definitions

Independence

3.1. The PSIAS define independence as *'the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity requires the head of the activity to have direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels'*.

Objectivity

3.2. The PSIAS define objectivity as *'an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels'*.

Assurance activity

3.3. This is defined in the PSIAS as *'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements'*.

3.4. LCCIAS conducts a wide range of engagements (assignments) designed to evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all aspects of ESPO's control environment (including where it works in partnership with, and leads on behalf of others).

3.5. LCCIAS aims to co-ordinate its assurance activity with any other identified internal and external providers of assurance services to ensure sufficient and proper coverage over the control environment and minimise duplication of efforts.

Consulting activity

- 3.6. This is defined in the PSIAS as *'Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility'*.
- 3.7. LCCIAS often acts in a consulting role and provides support for improvement in ESPO's systems, procedures and control processes without assuming management responsibility. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies. The provision of such advice does not prejudice LCCIAS' right to evaluate the established systems and controls at a later date. Other consulting could include counsel, facilitation and training.
- 3.8. There is a specific public sector requirement that *'Approval must be sought from the Board (see paragraphs 3.12 to 3.14 below) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement'*. This is to ensure an appropriate balance of assurance (the primary internal audit function) and consulting activity.
- 3.9. The combined results and outcomes of assurance and consulting activities are fundamental to determining the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment.

The Chief Audit Executive

- 3.10. Although the PSIAS and LGAN have both adopted the original IIA Standards term 'Chief Audit Executive', it is recognised that this only describes a role, which at the Council (the Servicing Authority for ESPO) is performed by the Head of Internal Audit Service (HoIAS). Within this Charter, all references from hereon are to the HoIAS.

The Board and Senior Management

- 3.11. A public sector requirement of the PSIAS is for the Charter to define the terms 'Board' and 'Senior Management' for the purposes of internal audit activity. The LGAN advises the terms must be interpreted in the context of the governance arrangements within each individual organisation.

The Board

- 3.12. The PSIAS define the Board as *'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. This includes a supervisory board or a board of governors or trustees... 'Board' may refer to an audit committee to which the governing body has delegated certain functions'*.

- 3.13. For ESPO, the Terms of Reference for the Finance and Audit Subcommittee (the Subcommittee) include a delegated function to, *'Receive and review audit and governance reports'*.
- 3.14. Consequently, at ESPO the Finance and Audit Subcommittee (the Subcommittee) will perform the function of the Board. Within this Charter, all references from hereon are to the Subcommittee.

Senior Management

- 3.15. There is not a specific definition of 'senior management' in either the PSIAS or the LGAN. However, the PSIAS require *'the HoIAS to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals'*, and the LGAN advises that *'an effective internal audit service should understand the whole organisation, its needs and objectives'*.
- 3.16. In order to fully understand and be able to fulfill its responsibilities, the HoIAS and his/her team requires unfettered access to not only the Director of ESPO (the Director) but also, given the role of the Servicing Authority, to both the Consortium Secretary (the Secretary) and Consortium Treasurer (the Treasurer).
- 3.17. Consequently, at ESPO, the three roles of Director, Secretary and Treasurer (collectively referred to as the Delegated Officers (the Officers)) will perform the functions of Senior Management. Within this Charter, all references from hereon are to the Officers.

4. Authority

Statutory and Professional Requirements for internal audit activity

- 4.1. ESPO is a local authority purchasing consortium made up of six local authorities for which the Council is the Servicing Authority. The Accounts and Audit Regulations 2011 (the Regulations), requires any local authority to *'undertake an adequate and effective system of internal audit of its accounting records and of its system of internal control, (comprising risk management, control and governance), in accordance with the 'proper practices' in relation to internal control'*. Guidance to the Regulations recognises the PSIAS as representing *'proper internal audit practices'*.
- 4.2. Section 151 of the Local Government Act 1972, states that every local authority should *'make arrangements for the proper administration of their financial affairs, and shall secure that one of their officers has responsibility for the administration of those affairs'*. CIPFA defines that *'proper administration'* should include *'compliance with the statutory requirements for accounting and internal audit'*. ESPO's Constitution (Financial Regulation Rule 15(a)) determines that *'Responsibility for arranging a continuous internal audit of the ESPO's financial management arrangements will be delegated by the Management Committee to the Consortium Treasurer'*.

- 4.3. The relationship between the head of the internal audit activity, namely the HoIAS, and the Treasurer (the Chief Financial Officer (CFO) of the Council) is of particular importance in local government. The CIPFA Statement on the Role of the CFO in Local Government states that the CFO must: -
- a. *ensure an effective internal audit function is resourced and maintained*
 - b. *ensure that the authority has put in place effective arrangements for internal audit of the control environment*
 - c. *support the authority's internal audit arrangements*
 - d. *ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively*
- 4.4. At ESPO, the Treasurer: -
- a. In conjunction with the Director and the Secretary contributes to and agrees the overall annual internal audit plan
 - b. In conjunction with the Director receives periodic updates on progress and performance against the plan and approves major variations before they are reported to the Committee
 - c. commissions (or approves) unplanned audits
 - d. is the HoIAS' line manager and conducts his/her annual performance and development review;
 - e. In conjunction with the Director determines LCCIAS resources required for ESPO;

Access

- 4.5. PSIAS 1000 requires the Charter to, *'establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities'*.
- 4.6. ESPO's Constitution Financial Regulations Rule 15(b) states that the Treasurer or an authorised representative (interpreted to be any LCCIAS internal auditors) has authority to:-
- a. enter any ESPO building or land at all reasonable times;
 - b. have access to all records, documents and correspondence relating to any transactions of ESPO;
 - c. receive such explanations as he or she considers necessary on any matter under examination;
 - d. require any employee of ESPO to produce cash, stores or any other ESPO property under his/her her control.
- 4.7. Whilst not explicit, Rule 15(b) is a conduit to seeking agreement to access any relevant partner organisations' records.

Organisational independence

- 4.8. The PSIAS require that *'reporting and management arrangements must be put in place that preserves the HoIAS (and LCCIAS') independence and objectivity, in particular with regard to the principle that they must remain independent of the audited activities'*.

This requirement aligns to CIPFA's Statement on the Role of the Head of Internal Audit (2010) that '*organisations need to ensure that where the HoIAS is an employee, he or she is sufficiently senior and independent within the organisation's structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team*'.

4.9. PSIAS 1110 on Organisational Independence states that '*the HoIAS (HoIAS) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The HoIAS must confirm to the Subcommittee, at least annually, the organisational independence of the internal audit activity*'. An additional public sector requirement of PSIAS 1110 is that '*The HoIAS must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee*'.

4.10. The HoIAS reports to the Treasurer and to the Subcommittee (reports are agreed with the Director beforehand). The HoIAS has direct access to ESPO's organisational management team, the Secretary and, if required, to the Chair of the Subcommittee. In accordance with PSIAS 1110A.1, there is acknowledgement amongst these parties that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

5. Responsibility

This section of the Charter summarises the key responsibilities of the Subcommittee, the Officers and the HoIAS and LCCIAS internal auditors

The Subcommittee's responsibilities

5.1. The Subcommittee does not have any decision making authority. Instead, the Management Committee has overall strategic responsibility for the management oversight and direction of ESPO, and it is the sole decision maker. As such, the Subcommittee will undertake the following key duties within the PSIAS which will then have to be formally approved by the Management Committee, namely review and note: -

- a. the internal audit charter
- b. the risk based internal audit plan
- c. communications from the HoIAS on internal audit performance relative to its plan and other matters
- d. an annual confirmation from the HoIAS with regard to the organisational independence of the internal audit activity

- e. the HoIAS' annual report, including the opinion on the control environment, a statement on conformance to the PSIAS and the results of the Quality Assurance and Improvement Programme – QAIP (see 5.4a)
- f. whether there are inappropriate scope or resource limitations, determined by making appropriate enquiries of the Officers and the HoIAS.

The Officers' responsibilities

5.2. The effectiveness of the internal audit activity relies upon the full co-operation of Senior Management. Under this Charter, the Officers will co-operate with the HOIAS in the following: -

- a. providing input to the annual risk based internal audit plan
- b. agreeing Terms of Engagement within agreed timescales
- c. sponsoring each audit at Assistant Director level
- d. providing LCCIAS with full support and co-operation including access to relevant records and personnel
- e. responding to LCCIAS reports within agreed timescales;
- f. ensuring that agreed recommendations are implemented within timescales;
- g. providing assurance that management actions have been implemented
- h. notifying the Treasurer of any significant changes in the control environment and proposed changes and developments in systems;
- i. notifying the Treasurer and Secretary of all suspected or detected fraud, corruption or impropriety.

The HoIAS' responsibilities

Code of Ethics

5.3. The HoIAS must ensure that LCCIAS internal auditors conform to the Code of Ethics (the Code), which promotes an ethical and professional culture and comprises both principles that are relevant to the profession and practice of internal auditing, and rules of conduct that describe behaviour norms and guide the ethical conduct expected of internal auditors. The Code does not supersede or replace either individuals' own professional bodies' codes of ethics or those of the Council (LCCIAS' employer). A PSIAS public sector requirement is that LCCIAS internal auditors must have regard to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

International Standards for the Professional Practice of Internal Auditing

5.4. The HoIAS must ensure that there is a robust framework supporting the activity of internal audit and that LCCIAS' internal auditors are trained and guided, and their performance monitored, to ensure they conform to the detailed attribute and performance standards within the PSIAS.

5.5. LCCIAS will conform to the full range of the standards. Nevertheless, the HoIAS has interpreted that many of the detailed PSIAS requirements for planning, performing, communicating results and monitoring progress merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approach to internal audit activity and so those details are not repeated in this Charter. Only new requirements, extensions and variations are explained in more detail below: -

Attribute standards

- a. 1300 - The HoIAS must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. This is a new requirement for LCCIAS.

The QAIP should enable: -

- evaluations of LCCIAS' conformance with the Definition of Internal Auditing and the Standards
- internal auditors' compliance with the Code of Ethics
- assessment of the efficiency and effectiveness of the internal audit activity
- the identification of opportunities for improvement.

The QAIP must plan for both internal and external assessments and the latter must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

To avoid any duplication and unnecessary cost, the HoIAS would discuss with and gain agreement from the Council's 'Board' (Corporate Governance Committee) to both the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. There are two additional public sector requirements: -

- the HoIAS must agree the scope of external assessments with an appropriate sponsor, e.g. the Council's CFO (the Consortium Treasurer) as well as with the external assessor or assessment team
- The HoIAS must communicate the results of the QAIP and progress against any improvement plans, firstly to the Council's Senior Management Team and Board, and then to ESPO's equivalents. The results must be reported in the HoIAS' annual report (usually on the agenda for the June Committee). The HoIAS may state that LCCIAS conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the QAIP support this statement. When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the HoIAS must disclose the non-conformance and the impact to the respective Senior Management Teams and Boards.

- An additional public sector requirement is that more significant deviations must be considered for inclusion in the governance statement.

Performance standards

- b. 2000 - The HoIAS must effectively manage the internal audit activity to ensure it adds value to the organisation. This sub-set of requirements includes the HoIAS' responsibility to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

There is a revised requirement for the risk based plan to incorporate or be linked to a strategic or high-level statement of how the internal audit activity will be delivered and developed in accordance with the Charter and how it links to ESPO's objectives and priorities.

There are two additional public sector requirements: -

- the risk-based plan must explain how LCCIAS' resource requirements have been assessed. Where the HoIAS believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Subcommittee
- the HoIAS must include in the risk-based plan the approach to using other sources of assurance (e.g. the External Auditor or where ESPO is in partnership with another organisation) and any work required to place reliance upon those other sources.

Reporting to the Subcommittee on performance relative to the plan is well established. However PSIAS also requires periodically reporting to the Treasurer and the other two Officers and the Subcommittee on the internal audit activity's purpose, authority and responsibility.

- c. 2100 - The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. This sub-set formalises some of the work already undertaken by LCCIAS to assess and make appropriate recommendations for improving the governance process, but then requires specific coverage to ensure accomplishment of the following objectives: -
- Promoting appropriate ethics and values within ESPO;
 - Ensuring effective organisational performance management and accountability;
 - Communicating risk and control information to appropriate areas of ESPO;
 - Coordinating the activities of and communicating information among the Subcommittee, external and internal auditors and management.

For risk management processes, there are requirements to evaluate risk exposures relating to ESPO's governance, operations and information systems and the potential for the occurrence of fraud and how ESPO manages fraud risk.

- d. 2400 – LCCIAS must communicate the results of engagements, including the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. The PSIAS is explicit that LCCIAS auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing", only if the results of the QAIP support the statement.

A specific public sector requirement formalises the HoIAS responsibility to deliver an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment contained within a report that can be used to inform the governance statement. A new requirement is for the HoIAS annual report to include a statement on conformance with the PSIAS and the results of the QAIP.

- e. 2600 - When the HoIAS concludes that ESPO's organisational management has accepted a level of risk that may be unacceptable and there is a danger that ESPO's objectives may not be achieved, the matter should be discussed with the Treasurer and/or the other two Officers. If the HoIAS determines that the matter has not been resolved, the HoIAS must communicate the matter to the Subcommittee.

6. The Scope of Internal Audit Activity

6.1. The Officers are responsible for establishing and maintaining appropriate governance, risk management and control arrangements (i.e. the control environment), for not only ESPO activities, but also for those provided in conjunction with, and/or on behalf of its partners. LCCIAS' remit extends to ESPO's entire control environment. However, limitations on internal audit resource requires the HoIAS to understand and take account of the position with respect to ESPO's other sources of assurance (internal and external) and plan internal audit work accordingly so that activity can be co-ordinated, ensuring proper coverage and minimising duplication of effort.

6.2. Internal audit activity for ESPO (and, where appropriate its partners) includes:

-
- providing assurance services i.e. reviewing, appraising and reporting on: -
 - the soundness, adequacy and application of governance processes, risk management frameworks and internal controls;
 - the extent to which assets are accounted for and safeguarded from losses of all kinds
 - the suitability and reliability of financial and other data developed;
 - reviewing compliance and conformance to rules, regulations, laws, codes of practice, guidelines and principles
 - the accuracy and completeness of grant claims

- providing consulting services;
- undertaking investigations, studies, reviews or assignments as directed (or approved) by the Officers;

The role of internal audit in fraud and corruption

6.3. The Officers are responsible for developing and maintaining a control environment that mitigates the risk of fraud and corruption

6.4. The HoIAS is responsible for reviewing and evaluating ESPO's approach to managing the risks of fraud, bribery and corruption. This includes: -

- Ensuring that strategies, policies and procedures are kept up to date and align with relevant codes of conduct
- Ensuring adherence to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
- Assisting with developing training and guidance on fraud awareness
- Coordination of ESPO's involvement in national anti-fraud projects

6.5. LCCIAS does not have responsibility for the detection or prevention of fraud and corruption, but it considers those risks when undertaking its activities. The independence of the internal audit activity leaves it well placed to undertake (or guide) any investigations that are required. The HoIAS will determine the level and scope of LCCIAS' involvement including delegating the investigation of specific allegations to ESPO itself following an assessment of risk and financial impact.



ESPO MANAGEMENT COMMITTEE – 4 MARCH 2015

AGENDA ITEM NO. 8

REPORT OF THE CONSORTIUM TREASURER

GOVERNANCE OVER MANAGING THE RISK OF FRAUD

Purpose of the Report

1. To ask Members to:
 - a. Approve the adoption of the principles within the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) as recommended by the Finance and Audit Subcommittee
 - b. Note progress against adopting the Servicing Authority's policies, strategies and procedures designed to both guide on standards of conduct and to mitigate the risk of fraud and corruption

Background

2. The risk of fraud, corruption and bribery is inherent in all businesses, particularly where there are extensive procurement and supplier and customer relationships, such as exist at ESPO. The risk of fraud and corruption by employees is included on ESPO's Corporate Risk Register
3. ESPO's Constitution contains explicit references to requirements to manage the risk of fraud, for example within the Consortium Agreement Section 23 'Prevention of Corruption and Bribery'; Finance Procedure Rule 17 'Financial Irregularities' and Contract Procedure Rule 7 'Prevention of Corruption / Conflict of Interest'.
4. There are also implied responsibilities for mitigating fraud risk contained in the 'Functions of the Management Committee' for ensuring, amongst other things, the successful operation of ESPO as a comprehensive professional purchasing service; the overall management of risk of the ESPO and that there is proper administration of ESPO's financial affairs. The Consortium Treasurer also has an implied responsibility for mitigating fraud risk through his delegated function to ensure proper administration of the financial affairs of ESPO.

5. ESPO adopts the Servicing Authority's (Leicestershire County Council) Employee Code of Conduct, whistleblowing and gifts and hospitality policies and procedures as well as its anti-fraud and corruption policies, strategies and procedures.

The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014)

6. The decommissioning of the Audit Commission has led to its counter fraud functions being transferred to the public sector accountancy institute, CIPFA. The CIPFA Code of Practice on Counter Fraud 2014 (the Fraud Code) was published on 16 October 2014. The Fraud Code supports organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption. It is a voluntary code that can be applied in any public service organisation. It is brief and clearly sets out the importance of top level support from the governing body and leadership team. Where an organisation chooses to make a statement in its annual governance report about its adherence to the Fraud Code, one of two statements should be approved according to whether the organisation either conforms to the Fraud Code or needs to take further action. Whilst it is to cease to exist from April 2015, the Audit Commission has recognised that the six key components of effective stewardship of public funds are incorporated within the Fraud Code and recommends that all public bodies, including local authorities, assess themselves against it.
7. The Fraud Code (as shown in Appendix 1) is organised around five key principles:
 - a. Acknowledge the responsibility of the governing body for countering fraud and corruption;
 - b. Identify the fraud and corruption risks;
 - c. Develop an appropriate counter fraud and corruption strategy;
 - d. Provide resources to implement the strategy;
 - e. Take action in response to fraud and corruption.
8. The starting point of a strategic approach to mitigating the risk of fraud is to acknowledge the first principle of the Fraud Code i.e. that fraud does exist within organisations, and that the governing body (elected members and senior management) has a responsibility for countering fraud and corruption. The three officers with delegated functions i.e. the Director of ESPO and the Consortium Treasurer and Consortium Secretary (the Officers) have agreed to adopt the principles of the Fraud Code and to include a statement of either conformance or further action required in ESPO's Annual Governance Statement.
9. At its meeting on 23 February, the Finance and Audit Subcommittee (the Subcommittee) added its support to the Officers, by recommending that Management Committee (the Committee) approves adoption of both the principles and the inclusion of a statement of conformance.

10. Adoption of the principles of the Fraud Code and reporting conformance (or otherwise) to it would strengthen the response to the External Auditor's annual questions on fraud to those charged with governance, when they present their annual audit plan.
11. The second principle of the Fraud Code i.e. to identify fraud and corruption risks by performing a fraud risk assessment and using the results to direct anti-fraud resources and strategies accordingly, will form part of the 2015-16 annual internal audit planning process in conjunction with the ESPO Director and the Consortium Treasurer and Secretary.

Update on the adoption of Servicing Authority policies, strategies and procedures designed to guide on standards of conduct and to mitigate the risk of fraud and corruption

12. Under the terms and conditions of their employment with Leicestershire County Council, ESPO employees should comply with the standards of conduct expected from all County Council employees which are set out in the recently revised and Member approved Employee Code of Conduct. The Employee Code is supported by more detailed policies and guidance including guidance on avoiding bribery, fraud and corruption; the requirements to disclose interests and rules on gifts and hospitality, and the revised whistleblowing procedure.
13. The Consortium Secretary presented the revised Employee Code to the ESPO Leadership Team on 11 February 2015. It was accepted that a short period of review and evaluation was required to ascertain whether there might need to be some minor adjustments to the County Council version, to ensure 'best fit' to ESPO's environment. The Director would consult with the Consortium Secretary on any changes and the arrangements for locally managing compliance to the requirements, then the approved ESPO version would be communicated to the ESPO workforce. Once the Employee Code was embedded, the HoIAS would undertake independent testing as part of the annual audit of the compilation of the Annual Governance Statement, designed to determine the knowledge and application of the Employee Code.
14. At the same meeting on 11 February, the Head of Internal Audit Service (HoIAS) briefly introduced to the Leadership Team revised County Council policies, strategies and guidance for anti-fraud and corruption, anti-bribery and money laundering. These three documents were approved by the County Council's Corporate Governance Committee on 20 February. Now that they are approved, the HoIAS will consult with the Officers to once again adapt them if necessary to ESPO 'best fit' and then present them to the 9 June 2015 Subcommittee for review and recommendation that the Committee adopts them, before once more communicating them to the wider ESPO workforce.
15. The Employee Code and its associated policies and guidance and the policies, strategies and procedures for anti-fraud and corruption, anti-bribery and money laundering will form a suite of good conduct and counter fraud documents for ESPO, which will mitigate the risk of fraud.

16. At its meeting on 23 February 2015, the Finance and Audit Subcommittee noted progress against adopting the Servicing Authority's policies, strategies and procedures designed to both guide on standards of conduct and to mitigate the risk of fraud and corruption

Recommendations

17. That the Committee: -

- a. adopts the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) and makes a statement in its annual governance report on whether ESPO conforms to the Code or needs to take further action
- b. Notes the progress made with adopting Leicestershire County Council's (the Servicing Authority) Employee Code of Conduct, and the suite of anti-fraud and corruption documents.

Equal Opportunities Implications

18. There are no discernible equal opportunities implications resulting from the audits listed.

Background Papers

None

Officer to Contact

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Appendices

Appendix 1 – The CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014)

Code of practice on

managing the risk of fraud and corruption



**CIPFA COUNTER
FRAUD CENTRE**

Code of practice on managing the risk of fraud and corruption

Published by:

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Code of practice principles

Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

The five key principles of the code are to:

- 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.

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.

Specific steps should include:

- A1 The organisation's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users.
- A2 The organisation's leadership team acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance.
- A3 The governing body acknowledges its responsibility for ensuring the management of its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- A4 The governing body sets a specific goal of ensuring and maintaining its resilience to fraud and corruption and explores opportunities for financial savings from enhanced fraud detection and prevention.

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.

Specific steps should include:

- B1 Fraud risks are routinely considered as part of the organisation's risk management arrangements.
- B2 The organisation identifies the risks of corruption and the importance of behaving with integrity in its governance framework.
- B3 The organisation uses published estimates of fraud loss, and where appropriate its own measurement exercises, to aid its evaluation of fraud risk exposures.
- B4 The organisation evaluates the harm to its aims and objectives and service users that different fraud risks can cause.

C Develop a strategy

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

Specific steps should include:

- C1 The governing body formally adopts a counter fraud and corruption strategy to address the identified risks and align with the organisation's acknowledged responsibilities and goals.
- C2 The strategy includes the organisation's use of joint working or partnership approaches to managing its risks, where appropriate.
- C3 The strategy includes both proactive and responsive approaches that are best suited to the organisation's fraud and corruption risks. Proactive and responsive components of a good practice response to fraud risk management are set out below.

Proactive

- Developing a counter-fraud culture to increase resilience to fraud.
- Preventing fraud through the implementation of appropriate and robust internal controls and security measures.
- Using techniques such as data matching to validate data.
- Deterring fraud attempts by publicising the organisation's anti-fraud and corruption stance and the actions it takes against fraudsters.

Responsive

- Detecting fraud through data and intelligence analysis.
 - Implementing effective whistleblowing arrangements.
 - Investigating fraud referrals.
 - Applying sanctions, including internal disciplinary, regulatory and criminal.
 - Seeking redress, including the recovery of assets and money where possible.
- C4 The strategy includes clear identification of responsibility and accountability for delivery of the strategy and for providing oversight.

D Provide resources

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

Specific steps should include:

- D1 An annual assessment of whether the level of resource invested to counter fraud and corruption is proportionate for the level of risk.
- D2 The organisation utilises an appropriate mix of experienced and skilled staff, including access to counter fraud staff with professional accreditation.
- D3 The organisation grants counter fraud staff unhindered access to its employees, information and other resources as required for investigation purposes.
- D4 The organisation has protocols in place to facilitate joint working and data and intelligence sharing to support counter fraud activity.

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.

Specific steps should include:

- E1 The organisation has put in place a policy framework which supports the implementation of the counter fraud strategy. As a minimum the framework includes:
 - Counter fraud policy
 - Whistleblowing policy
 - Anti-money laundering policy
 - Anti-bribery policy
 - Anti-corruption policy
 - Gifts and hospitality policy and register
 - Pecuniary interest and conflicts of interest policies and register
 - Codes of conduct and ethics
 - Information security policy
 - Cyber security policy.
- E2 Plans and operations are aligned to the strategy and contribute to the achievement of the organisation's overall goal of maintaining resilience to fraud and corruption.
- E3 Making effective use of national or sectoral initiatives to detect fraud or prevent fraud, such as data matching or intelligence sharing.
- E4 Providing for independent assurance over fraud risk management, strategy and activities.
- E5 There is a report to the governing body at least annually on performance against the counter fraud strategy and the effectiveness of the strategy from the lead person(s) designated in the strategy. Conclusions are featured in the annual governance report.

Applying the code in practice

Where organisations are making a statement in an annual governance report about their adherence to this code, one of the following statements should be approved according to whether the organisation conforms with the code or needs to take further action.

The statement should be approved by the governing body and signed by the person responsible for signing the annual governance report¹.

Statement 1

Having considered all the principles, I am satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Or

Statement 2

Having considered all the principles, I am satisfied that, subject to the actions identified below, the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Actions to be taken to manage the risk of fraud:

Action:	Responsibility:	Target date:

¹ Guidance notes on the implementation of the code to support evaluation are available at www.cipfa.org.

Glossary

As the code can apply to a wide range of organisations generic terms are used to describe governance and leadership responsibilities.

Governing body:

The person(s) or group with primary responsibility for overseeing the strategic direction, operations and accountability of the organisation. Examples include, the Board, Council.

The organisation's leadership team:

Leadership team: comprises the governing body and management team.

Examples or relevant roles include, cabinet members, chair of board, accounting officer, chief executive, executive directors, vice-chancellor, principal, headteacher.



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