



## **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)