

Fraud and corruption arrangements – discussion paper for the Norwich City Council Audit Committee 25 March 2010 meeting

Similar to last year, this is a request for your assistance as the Council’s Audit Committee (identified as those charged with governance) regarding our current work on the Council’s accounts for 2009/10.

In order to comply with International Standard on Auditing (UK&I)240 we are required to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control at the Council. We should be grateful if we can discuss at the 25 March Audit Committee meeting:

(i) how the Audit Committee oversees management processes to identify and respond to such risks, and

(ii) whether you have knowledge of any actual, suspected or alleged frauds affecting the Council.

Management’s processes include:

- Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- Identifying and responding to risks of fraud in the organisation;
- Communication to employees of views on business practice and ethical behaviour; and
- Communication to those charged with governance the processes for identifying and responding to fraud.

A second International Standard on Auditing (ISA(UK&I)250) requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

A summary of last year’s response together with additional information from our interpretation of your arrangements is attached below. We would like to discuss either any changes/updates required or confirmation that arrangements have not changed.

Issue	Findings from previous discussion/correspondence with those charged with governance
<p>Fraud risks, focussing on their:</p> <ul style="list-style-type: none"> • Awareness of any actual, suspected or alleged instances of fraud (must also be discussed with IA) (ISA+240 para 18, 21) 	<p>Norwich City Council has put in place a number of measures to consider fraud risks including the following regarding awareness of actual, suspected or alleged instances of fraud. These include:</p> <ul style="list-style-type: none"> • Consideration of any instances detected by Internal Audit or alleged via whistle-blowing in the period • Consideration and management of the posts considered to be high risk re F&C <ul style="list-style-type: none"> • Key posts - managers who are in a position to override controls or influence the financial reporting process and others where their role could have a material impact on the financial statements • Managed via: <ul style="list-style-type: none"> • Internal controls including segregation of duties, policies & procedures and reinforcing a non-tolerance culture • Internal Audit plan devised to take the risks into account and inclusion of risk

	<ul style="list-style-type: none"> • of fraud in each internal audit review • Specific policies including code of conduct, anti-fraud strategy, whistle-blowing policy, SFIs and SOs. Staff are expected to declare interests, gifts & hospitality & (for members & senior officers) related party transactions. • new anti-fraud & corruption policy Nov 2008 particularly emphasises employees to declare interests
<p>Fraud – an awareness of how those charged with governance oversee managements processes with regard to fraud and internal control (ISA+240 para 20) Management's processes include:</p> <ul style="list-style-type: none"> • Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud; • Identifying and responding to risks of fraud in the organisation; • Communication to employees of views on business practice and ethical behavior; and • Communication to those charged with governance the processes for identifying and responding to fraud. 	<p>Oversight is provided from the following:</p> <ul style="list-style-type: none"> • Effectiveness of internal controls to help prevent, deter or detect fraud: <ul style="list-style-type: none"> • Audit Committee considered/approved revised anti-fraud & corruption policy Nov 2008 with strengthened procedures; • Consideration of Internal Audit Annual Report to confirm that all significant findings had been or were being implemented. Head of Internal Audit reports to every Audit Committee meeting; • Culture of the Council including how staff are encouraged to report concerns about fraud: <ul style="list-style-type: none"> • Contents of employee code of conduct on personal standards and whistle-blowing • Recent refresh of whistle-blowing policy, included in staff magazine 'Inner City' & presented to managers • Recently recommended that staff should sign Code of Conduct when accepting a new position • Additional training on fraud recognition and whistle-blowing is being considered • Review of financial statements, Annual Governance Statement, and Annual Governance Report • Use of the NFI to detect potential fraudulent transactions using our data
<p>Law and regulations focussing on whether they comply with the relevant laws and regulations (ISA+250 para 14)</p>	<p>No specific comments received on this in 2008/09, so needs to be further explored but we are aware of Audit Committee knowledge via:</p> <ul style="list-style-type: none"> • Work of Internal audit • Risk register considered at Audit Committee meetings • Monitoring Officer attends Audit Committee meetings and considers key reports for legal implications