

Ethical and fraud awareness.

Facilitated workshops - outline audit approach

Isle of Wight Council

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Introduction

In response to the Local Government Act 2000 (the Act), the Audit Commission has developed a number of products aimed at supporting authorities implement the new arrangements and assess their effectiveness. These products include a diagnostic on community strategies and local strategic partnerships, and the democratic renewal audit. This diagnostic on 'setting high standards in local government' aims to address Part III of the Act aimed at standards of conduct amongst members. It should be noted that this is not a new issue. Our audit work has always addressed aspects of ethical governance, but with the implementation of the Act, the expectations following the Nolan reports and the introduction of the CPA process, we felt that a stand alone product would be useful. It should be noted also that Part III of the Act builds upon existing statute and common law (e.g. on declaration of interests).

Part III of the Act imposes new duties on local authorities to put in place rigorous mechanisms for improving the standards of conduct of public office holders. To underpin standards of conduct within local government, the Act provides for a new ethical framework including clear rules and procedures for tackling infringements. Local authorities now have a positive duty to comply with the Act and must:

- take lead responsibility for their own standards (Standards Committees should have been established by 26 May 2002)
- adopt a Statutory Code of Conduct for their councillors which requires compliance with high ethical standards
- adopt a Statutory Code of Conduct for officers (though this is yet to be published)
- promote and maintain ethical standards across the authority.

High ethical standards are a cornerstone of good governance. One of the common aspects of governance failures is not the absence of frameworks, controls and arrangements, but the absence of appropriate behaviours and values amongst Members and officers. For this reason councils' approach to promoting high standards of conduct will be considered in the new approach to corporate assessment in CPA 2005 for upper tier authorities.

There is an increased emphasis on member standards and of conduct in public life. The regulation of member interests, the findings of Nolan Report and newly established Standards Board are all factors in the current emphasis on local government to have strong ethical governance arrangements in place.

Failure to achieve high ethical standards has consequences for members, councils and local government more generally:

- investigation by the Standards Board for alleged breaches of the Code
- investigation by the Standards Board leading to member disqualifications
- loss of credibility and confidence in individual members, councils and local democracy
- potential litigation and costs of defending a challenge
- poor decision making (the AC corporate governance report discusses this in more detail)

More difficult to assess, but of greater risk to a council's business, is the reputational risk of being found guilty of a breach of the Code and the consequent difficulties of having to implement wide spread changes whilst under the spotlight. Setting high ethical standards is an important building block for authorities who want to develop their community leadership role (NB all authorities should be doing this). It is important also to remember that as authorities become involved in increasingly complex partnership arrangements, not only is

maintaining high standards will be crucial to maintaining effective partnerships, but if problems were to occur, they are likely to be exacerbated by the partnership element.

The Audit Commission has developed a number of products to help Councils, members and staff to respond to this agenda:

Product 1

The Ethical Audit - This audit guide is aimed at helping authorities set high ethical standards by assessing the adequacy of arrangements in place to achieve this. Part One of this audit provides an independent assessment of a local authority's:

- compliance arrangements for Part III of the Act,
- arrangements for positively promoting ethical standards across the council, including users, officers and partner bodies
- local protocols and procedures for carrying out investigations
- monitoring officer arrangements for working with the standards committee.

Subsequent work gives us an opportunity to work more directly with Members. It includes is a questionnaire aimed at assessing the level of understanding amongst all members and a facilitated workshop which can be delivered either to a standards committees or a wider audience of councillors. It presents a number of scenarios and asks Members to discuss the issues that the scenarios present – both in respect of whether the code of conduct has been breached, and with respect to the wider policy framework of the council. Both tools may also help authorities identify training needs for officers and members.

Product 2

Ethics and fraud awareness - Evidence shows that fraud and corruption can be deterred and prevented more effectively where there is a strong good conduct culture throughout the organisation. As well as effective systems and controls the people who operate them and their behaviour are key. This product helps organizations to look at their culture corporately and departmentally. Managers are encouraged to participate in a facilitated self assessment workshop process and to be open in identifying issues that need to be addressed. This leads to better ownership of the outcomes and has been effective at a number of major clients.

The client receives tailored reports based on the workshop outcomes which can be produced quickly with minimum effort by the auditor.

Scope and objectives

There is a close overlap between the two audit products – product one is directed at assessing the overall framework and engaging with members – product two is focusing on raising awareness of financial misconduct and fraud and corruption and engaging with management as well as members.

This audit specification focuses on product two and sets out proposals for a series of workshops designed to promote a good conduct culture across the Council. The workshops will be presented by external and internal audit. The objective is to engage senior and middle management within all departments and services across the Council and this will done on a phased based.

The workshop objectives are to;

Increase awareness of:

- Ethical issues
- Financial misconduct, fraud and corruption
- The Council's counter measures

- Reporting suspicions and how they should be investigated

Increase confidence to discuss and address risks

Get the views of delegates and identify risks and areas for improvement within specific services

Structure of workshop session

Session 1 – Purpose – Introduction to the session

Session 2 - What are your ethics? – Ice-breaker designed to test delegate's knowledge of ethical questions and stimulate thinking – use of voting technology

Session 3 - Fraud and other financial misconduct – Practical session looking at types of fraud and misconduct, the circumstances under which they occur and how they can be prevented

Session 4 - Arrangements and responsibilities in the Isle of Wight – Exercise designed to gauge delegates' perceptions of strengths and weaknesses of the Council's governance arrangements both globally and across individual service areas.

Session 5 - Some specific risk areas – A look at key risk areas, employee fraud, contract and procurement fraud and a discussion on how the Council is addressing these, through its fraud and corruption strategy and whistle blowing arrangements.

Session 6 - Open Session/Round-up - Syndicate groups to discuss top 'three' concerns

Session 7 - Close

The workshop will last approximately half a day.

Outputs

A tailored report will be produced based on the workshop outcomes.

Timetable and Delegates

The choice of delegates to attend these workshops is a matter for local consideration. Experience has shown that for best results there is ownership from the top (senior management and member) and the engagement of middle management. We have asked HR for an analysis of staff at SO1 level and above and grouped by service/department. This will form the basis of determining the proposed composition of each workshop group. Grouping and priorities will be for discussion and agreement with the Council's Directors' Group.

Two workshops are timetabled for January and March 2005.

Audit personnel and key contacts

Audit Commission /internal staff involved in the work will be.

Alastair Rankine	Audit Commission - Audit Manager
Ged Richardson	Chief Internal Auditor

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-Executive Directors/Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Director/Member or officer in their individual capacity, or to any third party.

Document request

AC Head B

AC Head C

AC Head D