



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: 23 May 2013  
My Ref: PH/ESPO  
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

**ESPO FINANCE AND AUDIT SUBCOMMITTEE**

A meeting of the Finance and Audit Subcommittee will be held on Monday, 3 June at 10.30 am in the Gartree Committee Room at County Hall, Glenfield, Leicester.

Yours faithfully,

for Consortium Secretary

**AGENDA**

1. Election of Chairman for the municipal year 2013/14.
2. Minutes of the meeting held on 18 February 2013. (Pages 3 - 6)
3. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.
4. Declarations of interests in respect of items on this agenda.
5. Draft Outturn 2012/13. (Pages 7 - 14)  
(Joint report of the Consortium Treasurer and Director)

**During discussion of Item 5 above, the Chairman will be asked to consider Item 12 on the agenda which will involve the likely exclusion of the public.**

6. Progress against Internal Audit Annual Plan 2012/13. (Pages 15 - 27)  
(Report of the Consortium Treasurer)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall  
Glenfield ◦ Leicestershire ◦ LE3 8RA ◦ Tel: 0116 232 3232 ◦ Email: [democracy@leics.gov.uk](mailto:democracy@leics.gov.uk)



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[www.espo.org](http://www.espo.org)

7. Internal Audit Annual Members' Report 2012/13. (Pages 29 - 39)  
(Report of the Consortium Treasurer)
8. Internal Audit Plan 2013/14. (Pages 41 - 47)  
(Report of the Consortium Treasurer)
9. Mitigation of the Risk of Fraud. (Pages 49 - 51)  
(Report of the Director)
10. Date of next meeting- Tuesday 3 September 2013.

**The public are likely to be excluded during the consideration of the following items of business in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information):**

11. Update from ESPO on reducing stock levels. (Pages 53 - 58)  
(Report of the Director)  
(Exempt under paragraphs 3 and 10 of Schedule 12(A))
12. Supplementary Report Informing Draft Outturn 2012/13. (Pages 59 - 71)  
(Joint report of the Consortium Treasurer and Director)  
(Exempt under paragraphs 3 and 10 of Schedule 12(A))

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 18 February 2013.

## PRESENT

### Cambridgeshire County Council

Cllr. J. Reynolds (in the Chair)

### Leicestershire County Council

Mr. M.B. Page CC

### Lincolnshire County Council

Cllr. S. Rawlins

### Peterborough City Council

Cllr. D. Seaton

#### 39. Minutes.

The minutes of the meeting held on 20 November 2012, having previously been circulated, were agreed as a correct record and signed.

#### 40. Urgent Items.

There were no urgent items for consideration.

#### 41. Declarations of interest.

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.

#### 42. Change to the Order of Business.

The Chairman sought and obtained the consent of the Subcommittee to vary the order of business from that set out in the agenda.

#### 43. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled:

'Forecast Outturn 2012/13 and Draft Medium Term Financial Strategy 2013/14 - 2016/17' (Paper 'E') as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

44. Forecast Outturn 2012/13 and Draft Medium Term Financial Strategy 2013/14 - 2016/17.

The Subcommittee received an exempt joint report of the Consortium Treasurer and Director which presented the Forecast Outturn 2012/13 and Draft Medium Term Financial Strategy 2013/14 - 2016/17. A copy of the exempt report, marked 'E', is filed with these minutes.

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

Arising from discussion the following points were noted:

- (i) The Subcommittee indicated its satisfaction at the level of information provided in the report and in particular the detailed scenario analysis which had been prepared;
- (ii) The Subcommittee was pleased to note the projected performance summarised within the forecast outturn 2012/13;
- (iii) Building knowledge and awareness of the market was a key part of the role of ESPO's Director. He had made recent visits to each of the Consortium Authorities with the exception of Leicester City Council and Lincolnshire County Council, but would be visiting these Consortium Authorities shortly;
- (iv) Competition would be a key challenge for ESPO over the coming years and there was a need for the Organisation to develop its approach in this regard;
- (v) In the future ESPO would need to develop its marketing practices, and would undertake reviews of its category management to ensure that customer requirements continued to be met;
- (vi) It was intended for provision to be made for ESPO to react more quickly to customer requests, e.g. utilizing e-communications. This was to support ESPO's growing number of customers;
- (vii) The Indigo warehouse project had been put on hold because further training on the new system for staff was required. Adjustments to the software to improve its accessibility by users were also being discussed with the developer. Re-implementation of the Indigo system was expected prior to the end of the current financial year, at an appropriate time at which demand for ESPO services was at a lull;
- (viii) The Servicing Authority's Internal Audit Service, as part of its remit, would review ESPO's existing warehouse processes;

- (ix) In respect of consulting services offered by ESPO a more robust time capture cost recovery system needed to be developed. It was suggested that it was important for client contracts to clearly state all charging arrangements.

RESOLVED:

- (a) That the forecast outturn for 2012/13, and draft four year medium term financial strategy 2013/14-2016/17, be noted;
- (b) That the Management Committee be recommended to note the forecast outturn and approve the draft MTFFS 2013/14-2016/17, on 7 March 2013.

45. External Audit Plan 2012/13 - Mitigation of Risk of Fraud.

The Subcommittee received a report of the Consortium Treasurer in respect of the External Audit Plan 2012/13 and the mitigation of risk of fraud. A copy of the report marked 'B' is filed with these minutes.

Arising from discussion the following points were made:

- (i) ESPO worked within the fraud risk mitigation procedures of the Servicing Authority;
- (ii) It was suggested that whistleblowing occurrences ought to be brought to members' attention at the earliest opportunity. The Subcommittee was advised that, should whistleblowing cases arise, their outcome would be reported to the Subcommittee within the Consortium Treasurer's regular reports on the progress of the Internal Audit Service.

RESOLVED:

- (a) That the contents of the report be noted;
- (b) That officers be requested to report further on ESPO's framework for the mitigation of fraud risk to the next meeting of the Subcommittee.

46. Effectiveness of the System of Internal Audit.

The Subcommittee received a report of the Consortium Treasurer the purpose of which was to provide an assessment of the system of internal audit for ESPO. A copy of the report marked 'C' is filed with these minutes.

RESOLVED:

That the report be noted.

47. Progress against the Internal Audit Annual Plan.

The Subcommittee received a report of the Consortium Treasurer giving a summary of progress against the Audit Plan 2012-13. A copy of the report marked 'D' is filed with these minutes.

Arising from discussion the following points were made:

- (i) The Subcommittee was pleased to note the progress by ESPO to improve the monitoring of rebates and verification of suppliers;
- (ii) Market intelligence was considered to be of high importance to ESPO;
- (iii) The cost of the Internal Audit Service was incorporated within the cost charged to ESPO by the Administering Authority.

RESOLVED:

That the report be noted.

48. Project Controls.

The Subcommittee received a presentation of the Director providing a summary of ESPO's approach to controlling projects. A copy of the presentation is filed with these minutes.

Arising from discussion the following points were noted:

- (i) There was a need for ESPO's performance management processes to become more robust and transparent. ESPO was developing this through a pipeline management process to ensure that this was addressed;
- (ii) The Subcommittee was assured that projects would continue to be reviewed and that where they did not represent value for money or address members' broader procurement challenges, that they would be discontinued.

RESOLVED:

That the presentation be noted.

10.30 am - 12.15 pm  
18 February 2013

CHAIRMAN



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013**

**DRAFT OUTTURN 2012/13**

**JOINT REPORT OF THE CONSORTIUM TREASURER  
AND DIRECTOR**

**Introduction**

1. This report sets out the draft outturn for 2012/13 with explanations for the more significant variances. Members should note that the outturn will be subject to external audit.

**Trading Summary**

**Income**

2. The spending restrictions imposed on local authorities by central government have continued to bite and this trend is expected to continue with further central government challenges expected. In addition the transfer of schools from Local Authority control to Academy status has continued and is expected to accelerate in the period between now and 2015.
3. Stores' sales value has increased this year by £2,636k (7%) to £40.3m. Sales to member authorities including academies have remained flat, while sales to other authorities have increased by 21%.
4. The growth in store sales was thus principally achieved in non-member areas.
5. As a result of the Department of Education Phonics initiative which was launched in September 2011 the higher-value Directs catalogue products business increased to £23.35m from £18.9m the prior year. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.
6. Rebate income was £4.8m an increase of £0.6m on budget. This has been achieved while continuing to reduce rebate margin from suppliers.
7. Catalogue advertising was £0.9m and was consistent with the prior year and budget. This is a good performance at a time when pressures on advertising income are considered strong.
8. Overall the organisation's invoiced turnover for the year excluding rebates was £94.1 million. This was 8.9% higher than the prior year which was primarily due to higher store sales, directs and increased gas usage due to the extended winter.
9. A full breakdown of the total income and trading surplus is included in Appendix 1.

Expenditure

10. Spending restrictions also applied to ESPO operating expenses and employee costs. Pay rates have remained unchanged. Total employee costs, including agency costs, were 3.5% higher driven partly by increased volume at the stores. Other overhead expenditure reduced by £19k on the prior year, partly as a result of the impact of the cost efficiency programme. These forty individual projects were launched to reduce costs and drive efficiencies throughout the organisation. £150k of cost savings have been targeted from these projects in the MTFs for 2013-14.

Summary

12. The Net Surplus for the year was £2.7 million which is £74k (2.7%) higher than achieved in the prior year.
13. Further information which informs the Draft Outturn 2012/13, of a commercially sensitive nature, is contained in Item 12 (Exempt Report), elsewhere on the agenda, this includes:
1. Detailed breakdown of the year on year sales movement
  2. Detailed breakdown of the overhead expenditure
  3. Detailed Balance Sheet.
  4. Staffing Analysis
  5. Analysis of reserves
  6. Numbers of Orders
14. Details of variations from the Forecast Outturn are explained below where these have a significant impact on the operating surplus. An explanation is also included of changes in Service Lines income and expenditure compared to the Forecast Outturn.

**Outturn 2012/13: Service line Analysis – Comparison to the prior year and the March 2013 Forecast Outturn for 2012/13**Income:

15. The total income after deducting stores and cost of sales for the whole organisation for the year was £18.3 million. This is a 2.8% (£0.5 million) increase over the forecast. This is principally driven by higher rebate income £0.6m.
16. Energy and Fuels operating surplus increased by £30k over the forecast to £448k as a result of the additional volume.
17. Consulting increased its volume to £478k compared to a forecast of £182k. This resulted in the division only having a net operating loss of £98k. The plan and the budget is for this division to break even in 2013-14.
18. The other noticeable increase movement was the surplus for Stores. This was £324k lower than forecast. This was down to a lower than expected gross margin. The forecast was based on the standard costing system which indicated a higher margin than actually resulted. This will now be subject to a review to ensure that such a variance does not re occur in the future.



19. Major projects generated a surplus of £149k compared to a forecast of £110k, caused by increased year end volumes. This division has been absorbed in to mainly education for 2013-14 and will thus not be subject to service line analysis in 2013-14.

Expenditure:

20. The total expenditure for the year was £15.5 million. This is compared to the forecast of £15.2m.
21. There are no significant changes from forecast within individual service lines although there are a number of significant variations from the forecast by expenditure category as shown on the traditional management Trading Account. These are explained as follows:-
- Employment Costs £51k variance mainly down to additional agency costs.
  - Vehicles £53k variance down to poor winter weather increasing wear and tear on vehicles and additional repeat drops due to school closures.
  - Catalogues and Marketing £45k in line with original budget, additional marketing activity at year end to drive store and direct sales.
  - Bad Debts 37k variance down to prudent provisions in line with accounting policy. These debts are not written off just provided for. There have been billing issues with gas customers resulting in disputes, these are resolved over time but have contributed to the additional bad debt charge.
  - Professional Fees variance down to additional HR and Legal services.

Allocations from Operating Surplus

22. The Management Committee at its meeting on 7 March 2013 indicated that surplus reserves should be released back to general funds. To that end £145k has been released from the bonus fund provision representing the underspend on that fund as that issue is now closed.
23. It is proposed that a further allocation of £0.4million is used for the Building Capital Provision. It is also proposed that the level of capital provision is reviewed annually to ensure sufficient funds are set aside for the replacement costs of the buildings. The provision is necessary to ensure the building is maintained at the highest possible standard with funds allocated and available to meet general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.
24. It is proposed that a further £572k is set aside for earmarked projects as follows:

	<u>£k</u>
<b>New projects</b>	
CMS Upgrade	11
E Commerce (e-ordering / e-invoicing)	28
Scanning software (PL invoices)	20
Demand Planning	143
E Tendering / E Procurement	100
Rebates system	100
GEMS 2	120
Organisational Changes	50
	<b>572</b>

Distribution of Surplus:

25. The amount available for distribution after the above allocations to reserves is £1.9 million of which 80% (£1.5 million) is attributable to member authorities as a dividend.
26. The dividend entitlement for each member authority is calculated based on their use of ESPO services excluding academies is estimated as follows:

	<u>2012-13</u> <u>Proposed</u> <u>Distribution</u> <u>excl Academies £</u>
Cambridgeshire	226,421
Leicester City	212,827
Leicestershire	209,067
Lincolnshire	232,793
Norfolk	332,367
Peterborough City	85,062
Warwickshire	207,529
Total	<hr/> 1,506,066 <hr/>

A proposal to move to a method of distribution based on including academy spend is under consideration.

ESPO Balances

27. The General Fund balance is primarily to meet any adverse trading conditions, provide funding for stock balances and other expenditure prior to the receipt of income. Established practice is that 20% of operating surplus is added to this fund up to a maximum of 5% of turnover. For 2012/13 £382k has been added to the General

Fund balance representing 20% of surplus. The level of General Fund balance is expected to increase annually until the agreed maximum is retained according to the approved funding formula as explained below.

28. Applying the current formula to invoiced turnover, the maximum holding would amount to £4.7 million which is calculated as 5% of the turnover of £94.1m.
29. The actual value of the General Fund at 31 March 2012 amounts to £2.95million. Should the General Fund prove to be insufficient to support the business requirements in any year, ESPO have agreed temporary informal borrowing arrangements from Leicestershire County Council.

### **Recommendation**

30. The Subcommittee is asked to recommend to the management committee
  - (a) the draft out turn for 2012-13;
  - (b) allocations from the operating surplus for 2012-13 as outlined in paragraphs 23 and 24 of this report;
  - (c) payment of the dividend subject to approval of the accounts and confirmation of the basis for distribution as outlined in paragraphs 25 and 26 of this report;

### **Reasons for recommendation**

31. The Management Committee approval to the Outturn Report and related Management Accounts and Service Line Reporting is required as they directly relate to the Statement of Accounts.

### **Equal Opportunities Implications**

32. None

### **Risk Assessment**

33. None

### **Officers to Contact**

John Doherty , Director of ESPO, 0116 265 7930

Brian Roberts, Consortium Treasurer, 0116 305 7831

### **List of Appendices**

Appendix 1 – Draft ESPO Management Accounts for year end 31 March 2013

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ESPO MANAGEMENT ACCOUNTS FOR YEARAPPENDIXENDED 31st MARCH 2013

PRIOR YEAR		2012-2013 ORIGINAL BUDGET	2012-2013 REVISED FORECAST	2012-2013 ACTUAL
ACTUAL				
£000		£000	£000	£000
<u>INCOME</u>				
37,680	Stores Sales	39,682	40,738	40,316
28,638	Less Stores Cost of Sales	30,218	30,890	30,950
<u>9,042</u>	STORES TRADING SURPLUS	<u>9,464</u>	<u>9,848</u>	<u>9,366</u>
31.6%		31.3%	31.9%	30.3%
4,814	Rebates from Suppliers	4,177	4,221	4,852
2,166	Margin on Direct Orders	2,494	2,602	2,653
906	Catalogue Advertising	898	901	918
234	Other Income	181	194	286
659	Major Projects Income	220	110	126
<u>8,779</u>	CUSTOMER & CLIENT RECEIPTS	<u>7,970</u>	<u>8,028</u>	<u>8,835</u>
<u>17,821</u>	<u>TOTAL INCOME</u>	<u>17,434</u>	<u>17,876</u>	<u>18,201</u>
<u>EXPENDITURE</u>				
EMPLOYEES				
7,617	Salaries & Wages	8,077	7,868	7,914
476	National Insurance	524	471	477
1,034	Superannuation	1,198	1,062	1,061
<u>9,127</u>		<u>9,799</u>	<u>9,401</u>	<u>9,452</u>
OTHER EMPLOYEE EXPENSES				
51	Staff Training	106	45	56
36	Staff Advertising	37	74	44
34	Additional Pension Costs	30	40	34
32	Other Allowances & Payments	34	17	19
60	Insurance	63	61	60
PREMISES				
148	Repair, Maintenance & Insurances	163	153	166
94	Lighting & Heating	95	94	113
934	Rent	926	915	913
332	Rates	355	350	352
20	Water	29	22	20
TRANSPORT				
1,575	Vehicles	1,720	1,617	1,670
370	Renewals Fund Contribution	372	372	372
EQUIPMENT				
572	IT equipment	583	428	372
149	IT Renewals Fund Contribution	157	157	157

242	Warehouse and office equipment	202	167	210
	OFFICE EXPENSES			
178	Printing & stationery	160	167	216
143	Postage	108	147	126
40	Telephones	49	39	46
	OTHER EXPENSES			
463	Catalogues & Marketing	515	473	518
0	Bank Interest	0	0	9
41	Travel & Subsistence	46	33	43
43	Subscriptions	43	37	35
85	Provision for bad debts	30	30	67
39	Miscellaneous Expenses	48	37	54
22	Audit fees	24	14	15
80	BSF Partnership Fees	25	0	0
100	Consultancy & Professional Fees	61	101	177
	CENTRAL CHARGES			
147	Support services	159	175	147
<u>15,157</u>	<u>TOTAL EXPENDITURE</u>	<u>15,939</u>	<u>15,166</u>	<u>15,463</u>
<u>2,664</u>	<u>TRADING SURPLUS</u>	<u>1,495</u>	<u>2,710</u>	<u>2,738</u>
	<u>LESS TRANSFERS TO RESERVES:</u>			
0	Bonus Scheme Reserve	0	0	-145
100	Warehouse Efficiency Project	0	572	572
00	Legal Claim Reserve	0	400	0
00	Strategic Review Implementation		-145	0
400	Building Capital Provision	0	400	400
<u>2,164</u>	<u>NET SURPLUS FOR YEAR</u>	<u>1,495</u>	<u>1,883</u>	<u>1,911</u>
	DISTRIBUTION OF NET SURPLUS:			
433	Trading Reserves	299	377	382
1,731	Distribution to Members	1,196	1,506	1,528
<u>2,164</u>		<u>1,495</u>	<u>1,883</u>	<u>1,910</u>



## ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013

### INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2012-13 INTERNAL AUDIT PLAN

#### REPORT OF THE CONSORTIUM TREASURER

##### Purpose of the Report

1. To give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work to the Subcommittee and highlight any audits where high importance (HI) recommendations have been made and the position against implementing action.
2. To inform Members of progress against the adoption and implementation of the Public Sector Internal Audit Standards (PSIAS) from 1<sup>st</sup> April 2013.

##### Background

3. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of these affairs. Part of the role of the Finance and Audit Subcommittee is to receive and review audit reports. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.
4. The audits undertaken are based on the annual internal audit plan. Variations to the plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.

##### Summary of Progress

5. Progress against the final quarter's work is shown in **Appendix 1**. The 'opinion' is what level of assurance can be given that material risks are being managed.
6. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get a classification above partial. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.

7. A brief summary of each individual audit objective, major findings and conclusions is shown in **Appendix 2**.
8. **Appendix 3** details HI recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some movement has occurred in a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.
9. A 'new' HI (on business continuity) is reported and, in accordance with resolution agreed by the Subcommittee on 20 November 2012 (Minute 35 (b)), the full report has been circulated to members. There continues to be movement on the other previously reported HI's with two rebates' and a further two collaborative procurement HIs being 'signed off' after ESPO management had proved implementation of the recommendations.

#### **LCCIAS adoption and implementation of the Public Sector Internal Audit Standards (PSIAS) from 1st April 2013**

10. At the 18 February 2013 meeting, in his report on the 'Annual Review of the Effectiveness of the System of Internal Audit', the HoIAS gave further brief details on the development of Public Sector Internal Audit Standards (PSIAS) which were brought into force on 1 April 2013. However, because of the PSIAS complexity and scope he was awaiting specific guidance on adoption and implementation by LCCIAS in a 'Local Government Application Note'.
11. The guidance was delayed until mid-April and so it has not been possible to fully identify, evaluate and plan for the adoption and implementation of the PSIAS. Once this guidance has been produced a further report will be brought to the Subcommittee.

#### **Resource Implications**

12. The 2012-13 internal audit plan did not include time for either servicing the requirements of the Finance and Audit Subcommittee or assistance with improving ESPO governance arrangements. The resources used in these new areas therefore had a slight impact on the completion of planned audits.

#### **Recommendation**

13. That the contents of the report be noted.



**Equal Opportunities Implications**

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

**Background Papers**

Report to ESPO Management Committee on 27 September 2012 – Finance and Audit Subcommittee – Proposed terms of reference and indicative work plan

**Officer to Contact**

Neil Jones, Head of Internal Audit Service

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**Appendices**

- Appendix 1 - Summary of final internal audit reports issued 01.01.13 to 30.04.13  
Appendix 2 - Summary audit objectives, findings and conclusions  
Appendix 3 - Summary of Internal Audit High Importance Recommendations

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<u>Sub-Function</u>	<u>Name</u>	<u>Final Issue Act</u>	<u>Audit Opinion</u>	<u>High Importance</u>
Procurement	E-Tendering Solution	31-Jan-13	Advice	No
Procurement	Legislation Compliance	26-Feb-13	Substantial	No
Procurement	Financial Vetting	08-Mar-13	Substantial	No
Debtors	Debtors	27-Mar-13	Substantial	No
Human Resources	Pre Employment Checks	28-Mar-13	Full	No
Creditors	Rebates Processes	31-Mar-13	Substantial	No
Ledger	General Ledger	31-Mar-13	Substantial	No
Ledger	Trading Information	25-Apr-13	Full	No
Developments	Business Continuity	25-Apr-13	Partial	Yes
Physical Asset	Stock		Incomplete @ 31.3.13	No
Creditors	Rebates Supplier Verification		Incomplete @ 31.3.13	No
Operational	Energy		Cancelled Job	No
Procurement	Contract Management		Cancelled Job	No

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**Summary audit objectives, findings and conclusions****Audits concluded or in progress at 30 April 2013****Audits where provisional findings & conclusion had previously been reported (February Subcommittee)**

E-tendering solution  
Financial vetting  
Legislation compliance

**Audits where only the objective had previously been reported (February Subcommittee), which are now concluded****Debtors**

Objective is to provide assurance that debt recovery processes are robust and write-offs are valid and appropriately authorised

**Findings & conclusion;**

The processes in place for the pursuit of debts were operating satisfactorily in that debts are prioritised and regularly chased although responsibilities need to be reviewed to ensure that decisions are being taken by appropriate officers and that these are evidenced in writing. Performance on debt collection is monitored regularly by management using up to date information.

Recommendations were made to improve controls but none were deemed high importance.

**Pre-employment checks**

To give assurance that pre-employment procedures in relation to Agency staff are robust in relation to the confirmation of: relevant qualifications, driving licenses and right to work.

**Findings & conclusion;**

Processes are robust

**Rebates processes**

Following up of high importance recommendations identified during the audit of rebates processes during 2011-12 and 2012-13. Progress made and further work proposed is captured in the right hand column of appendix 3.

**General Ledger**

A programme of work conducted on the key financial systems in order to give assurance on the completeness and accuracy of the general ledger. The programme is agreed with the External Auditor since the outcomes assist their annual assessment of the likelihood of material misstatement in ESPO's financial accounts

**Findings & conclusion;**

Accounting procedures are being applied to ensure the completeness and accuracy of the General Ledger.

**Trading information**

The objective for this audit was to ensure that the trading results provided by ESPO, both for internal use and reported to the Management Committee, are well founded in its General Ledger

**Findings & conclusion;**

There is an adequate trail to the General Ledger.

An audit will take place during 2013-14 on the derivation and accuracy of trading forecasts

**Business continuity arrangements**

The objective was to provide assurance that arrangements are in place to ensure acceptable continuation of core activities in the event of system failures or emergencies.

**Findings & conclusion;**

ESPO had appointed a consultant to develop Risk Management and Business Continuity programmes. However, ESPO management agreed that the consultant's findings and recommendations were not adequately addressed, especially around definitions of critical services.

This resulted in a partial assurance rating and a high importance (HI) recommendation which is reported and progress tracked through appendix 3 and (in accordance with minute 35 (iii) of the Subcommittee of 20 November 2012) the full report is attached as Appendix 4.

**Audits not concluded to draft report stage at the end of April****Rebates (supplier verification)**

Objective is to give assurance that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate.

**Stock**

Objective is to provide assurance that there are robust systems for receipts into, movements within and issues from stores and those issues are supported by sales ledger invoices.

Audit was deferred pending further development of the Indigo stock management processes and will be picked up in the 2013-14 audit plan.

**Cancelled audits due to insufficient resource caused by the impacts of other work especially servicing the Finance and Audit Subcommittee: -**

Energy  
Contract management

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**Summary of Internal Audit High Importance Recommendations**

Committee	Audit Title	Summary of Finding and Recommendation	Management Response	Action Date	Confirmed Implemented
June 2013	Business Continuity	<p>The consultant's perception of what was deemed a 'critical service' and key functions has not been ratified by ESPO management team.</p> <p>Recommended a definition should be established, agreed and recorded, then used to identify all services/processes considered to be 'Critical.'</p>	A	May 13	Pending agreement at Senior Management Team on 28 May.
Aug 2012	Rebates	<p>Inconsistent systems were operated to capture relevant data which created inefficiencies in the invoicing and sales ledger processes and a risk that all rebates actually due are not promptly and accurately collected and received.</p> <p>Recommended business processes to be established and subsequently documented to identify which area of the business should carry out various processes.</p>	A	July 12	<p>Partly – processes have been documented</p> <p>IAS will further f/u compliance against processes</p>
Aug 2012	Rebates	<p>There was limited accountability for significant differences between rebates estimated and subsequently received, with too much emphasis placed solely on buyer intervention. For 'Dealing Directs' items, there was reliance on the honesty of suppliers to provide accurate information with regard to levels of turnover. This had been highlighted as a concern by ESPO Management with an indication that further audit work is</p>	A	August 12	Yes Further supplier verification work conducted in q4. Report is pending.

**Eastern Shires Purchasing Organisation (ESPO)**

		<p>required in this area.</p> <p>Recommended that evidence should be requested substantiating how the rebate has been calculated (processes) and test checks undertaken against key suppliers (supplier verification).</p>			
		<p>For 'Dealing Direct' items, there is major reliance on the honesty of the supplier to provide accurate information about levels of turnover.</p> <p>There is also a higher risk of non-receipt of rebates, especially in the current economic climate, due to only collecting on an annual basis regardless of the perceived risk of supplier.</p> <p>Recommend: -</p> <ul style="list-style-type: none"> <li>• Supporting evidence substantiating rebates paid should form part of new contractual obligations for all suppliers. Current suppliers should be retrospectively requested to comply.</li> <li>• Consideration should be given to more regular rebate settlements for selected suppliers based on factors such as materiality of business and the degree of financial stability of the supplier.</li> </ul>	A	August 12	<p>Partly – contracts are more robust but changes have not been embedded long enough to confirm compliance</p> <p><b>Further audit work planned</b></p>
Aug 2012	Rebates	<p>ESPO staff identified a lack of any rebate budget information being produced during the year.</p> <p>Recommended the development of robust management information and performance indicators in order to provide regular reporting to management team, which would also aid management decision making regarding the benefit or otherwise of each individual contract</p>	A	October 12	<p>Yes</p> <p><b>However IAS to f/u whether further development is required</b></p>

**Eastern Shires Purchasing Organisation (ESPO)**

Key to management response

A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

Audit/ESPO/F&ASC/13-14/June/Appendix 3/Hi Progress Report

Last Revised 20/05/2013

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**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013**

**INTERNAL AUDIT SERVICE – ANNUAL REPORT 2012-13**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. To provide the Subcommittee with an annual report on internal audit work conducted during 2012-13.

**Background**

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to internal audit professional standards. For 2012-13 these were the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code).
4. The Code requires the Head of Internal Audit Service (HoIAS) to provide a written report to those charged with governance, this is timed to support the preparation of the Annual Governance Statement. The HoIAS annual report must include an opinion on the overall adequacy and effectiveness of the organisation's control environment and present a summary of the audit work from which the opinion is derived.
5. This report precedes the Annual Governance Statement which will be presented to the Management Committee at its meeting in September alongside the Statement of Accounts. The Statement of Accounts, accompanied by the Annual Governance Statement, will be presented to the Subcommittee at its next meeting prior to final consideration by the Management Committee.

**Annual Internal Audit Service Report**

6. The annual report for 2012-13 is provided in Appendix 1.
7. The report contains the HoIAS annual opinion on the overall adequacy and effectiveness of ESPO's internal control environment i.e. its framework of governance, risk management and control. Appendix 2 explains what the "internal control environment" covers.

The HoIAS opinion combines an objective assessment, based on the results of individual audits undertaken and actions by management thereafter, and the professional judgement of the HoIAS based on his evaluation of other related activities.

8. For 2012-13, whilst recognising further improvements are required, positive opinions were given in all three areas of the framework of governance, risk management and control.

### **Resources Implications**

9. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
10. The 200 planned days was exceeded by 10 due to the unplanned impact of servicing the Finance and Audit Subcommittee and additional time taken to close some audits. The total charge was £58,800.

### **Recommendation**

11. That the Subcommittee notes the Internal Audit Service annual report for 2012-13.

### **Equal Opportunities Implications**

12. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

### **Background Papers**

Accounts and Audit Regulations (Amendment) 2011  
The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

### **Circulation under Sensitive Issues Procedure**

None

### **Officer to Contact**

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### **Appendices**

- |            |   |  |
|------------|---|--|
| Appendix 1 | - | Internal Audit Service work during 2012-13               |
| Appendix 2 | - | The Internal Control Environment - a summary explanation |

# ESPO

## Leicestershire County Council Internal Audit Service Annual Report 2012-13



**Neil Jones CPFA, Head of Internal Audit Service,  
Leicestershire County Council**

**May 2013**

**LEICESTERSHIRE COUNTY COUNCIL**  
**INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2012-13**

**Overall Opinion**

The CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006) requires the Head of Internal Audit Service (HoIAS) to provide an opinion on the overall adequacy and effectiveness of ESPO's internal control environment i.e. its framework of governance, risk management and control. Based on an objective assessment of the results of individual audits undertaken and actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following opinions have been drawn:-

**Governance: -**

**There has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.**

**Risk management: -**

**ESPO has a robust risk management framework and plans to improve awareness of risk management beyond strategic management level.**

**Internal financial and ICT controls: -**

**General assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.**

**A summary of the work undertaken by Leicestershire County Council Internal Audit Service (LCCIAS) during 2012-13 is detailed below.**



### **Audit Requirement**

**Consortium Treasurer responsible for arranging continuous audit** Under ESPO's constitutional arrangements (recently reviewed as part of a fundamental change programme) the role of the Servicing Authority (Leicestershire County Council) and that of the Consortium Treasurer is defined. This states that Leicestershire County Council (the County Council) as the servicing authority, continue to provide financial support services (including internal audit) to ESPO.

### **Background**

**Leicestershire CC internal auditors carry out the work** The internal audit of EPSO is carried out by Leicestershire County Council's Internal Audit Service (LCCIAS). Auditors work closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

**Giving assurance on ESPO's internal control environment** The primary objective of internal audit is to provide Members, the Consortium Treasurer (the Treasurer) and Consortium Secretary and the Director of ESPO (the Director) with independent and objective assurance on the overall adequacy and effectiveness of ESPO's internal control environment i.e. the framework of governance, risk management and internal control

**Responsibility in respect of the control environment** It is the Director's responsibility to design, install and operate adequate arrangements for governance, risk management and internal control within appropriate constitutional frameworks; and to identify, assess and manage risks that are significant to the achievement of ESPO's objectives.

As internal auditors, LCCIAS provides independent and objective assurance to the Finance and Audit Subcommittee, the Treasurer and the Director that ESPO is doing so successfully for each of the areas audited, and reports its findings, conclusions and recommendations accordingly.

**Wide scope of audit coverage** The methodology used to assess the need for internal audit coverage reflects the increasing emphasis being placed on governance and risk management.

**Plan for audit coverage assessed using risk based methodology**

For 2012-13 LCCIAS audit planning methodology comprised reviewing and updating the 'audit universe' (a list of auditable entities) and applying the internally designed risk scoring/ranking system 'MILE'. Emphasis was placed on risk factors, namely materiality; risk likelihood; its impact and known reductions in risk exposure. Scores derived from the analysis were used to rate the relative importance of a number of different headings such as governance arrangements, income, procurement etc

**"Joint audit" work with PwC**

Part of the annual internal audit plan for ESPO requires that LCCIAS conducts annual audits on key elements of the general ledger and IT systems. These audits are undertaken in consultation with ESPO's External Auditors (PWC) to assist in their responsibility to form an opinion that ESPO's financial accounts are not materially misstated. PWC determines that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment and to allow them to place reliance on LCCIAS work.

**Risk based auditing**

LCCIAS uses a number of techniques to reach its opinions on what level of assurance can be provided that risks are being identified, evaluated and managed. Much work will be based around a "risk based" audit. With this technique key risks (based on likelihood and impact) are identified and agreed at the start of the audit. The quality of controls to mitigate these risks is then tested

**High importance recommendations**

Following testing, where risk levels are considered still to be significant, (in line with ESPO's own risk scoring methodology), then recommendations are designated as High Importance (HI). Action taken to implement the recommendation is always re-tested by LCCIAS.

**ESPO member involvement**

The Finance & Audit Subcommittee receives audit reports i.e. annual plan, quarterly progress against the plan (including progress against implementing HI recommendations), annual report (including the HoIAS opinion) and the review of effectiveness of the system of internal audit.

### Summary of Work

<b>Audits undertaken in 2012-13</b>	Work undertaken during the year is listed below.
<b>Stock (complete 12-13)</b>	Objective was to provide assurance that the financial information held on the warehouse system and the general ledger with regard to stock were aligned. Recommendations around surplus/deficit thresholds; management information; operational processes and monitoring and performance information were agreed.
<b>Rebates Phase 2</b>	Objective was to ensure that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate. One recommendation around following up any discrepancies was agreed to be implemented.
<b>Warehouse Picking System</b>	Objective was to obtain and evaluate key performance indicators currently in operation/available and to subsequently measure these against the new Indigo system (Stage Two 12/13 audit) in order to ascertain if the key deliverables of the project have been achieved. One recommendation around developing key performance indicators was agreed to be implemented.
<b>Annual Governance Statement</b>	Objective was to ensure that there were adequate arrangements in place to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework. The one HI recommendation (to improve the process for the 2012-13 compilation) was accepted and progress has been made.
<b>Supplier Performance</b>	Objective was to provide assurance that arrangements were in place to ensure poor supplier performance was identified, monitored and managed effectively. A number of recommendations around improving complaints procedures and customer relationship records; introducing satisfaction questionnaires; management information and key performance indicators and targets and escalation procedures were all agreed to be implemented

<b>Health &amp; Safety</b>	Objective was to ensure that ESPO assesses and monitors that it is compliant with Health & Safety requirements & legislation and, in particular, that the recommendations coming from the LCC review of Health & Safety (March 2012) had been fully considered and, where appropriate, implemented. Recommendations relating to regular reviews of policies; records of checks; proactive risk management and reviewing first aid cover were all agreed to be implemented.
<b>Risk Management</b>	Objective was to confirm that there is an effective risk management framework in place within the organisation. Recommendations relating to reviewing policy; reporting arrangements; alignment to business priorities; quarterly reporting training and guidance and publicity were all agreed to be implemented.
<b>E-tendering</b>	Provided advice on audit trail requirements in tender documents and reviewed and commented on applicants' submissions
<b>Financial Vetting</b>	Objective was to ensure that procedures for the financial vetting of suppliers were being followed in line with guidance provided. Recommendations included establishing a process to determine for which contracts it is necessary to continue to review financial stability on a regular basis; changes to wording within tender documentation to assist understanding; reporting results and monitoring consistent compliance.
<b>Legislation Compliance</b>	Reviewed a sample of contracts and projects to show that external legislation and ESPO directives had been correctly applied in relation to the tendering process e.g. advertisement, tender receipt & opening, tender award. Recommended improved records and document retention.
<b>Rebates (processes)</b>	Evaluated progress against implementing the previous year's audit HI recommendations.
<b>General Ledger</b>	A programme of work on the key financial systems; to give assurance on the completeness and accuracy of the 2012/13 General Ledger. The programme has to be agreed with the External Auditor since the outcomes assist their annual assessment of the likelihood of material misstatement in ESPO's financial accounts. Found that accounting procedures were being applied to ensure the completeness and accuracy of the General Ledger.

<b>Business continuity arrangements</b>	The objective was to provide assurance that arrangements were in place to ensure acceptable continuation of core activities in the event of system failures or emergencies. One HI recommendation to define business critical services was agreed
<b>Debtors</b>	Objective was to provide assurance that debt recovery processes were robust and write-offs are valid and appropriately authorised. Recommendations were made to improve controls but none were deemed high importance.
<b>Rebates (supplier verification)</b>	Objective was to give assurance that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate.
<b>Stock</b>	Objective was to provide assurance that there were robust systems for receipts into, movements within and issues from stores and, that issues were supported by sales ledger invoices. Deferred pending further development of the Indigo stock management processes and will be picked up in the 2013-14 audit plan.
<b>Pre-employment checks</b>	Objective was to give assurance that pre-employment procedures in relation to Agency staff were robust in relation to the confirmation of: relevant qualifications, driving licenses and right to work. Found that processes were robust
<b>Trading information</b>	The objective was to ensure that the trading results provided by ESPO, both for internal use and reported to the Management Committee, were well founded in its General Ledger. Found that there was an adequate trail to the General Ledger.

### **Person to Contact about this Report**

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LCCIAS

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### **The internal control environment**

CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) defines the internal control environment as: -

Comprising the systems of governance, risk management and internal control.

The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management.

The International Auditing Standard (315) also states that it encompasses the following:-

- Communication and enforcement of integrity and ethical values
- Commitment to competence [including ensuring the required level of knowledge and skills]
- Participation by those charged with governance [this includes audit committee members or its equivalent]
- Management's philosophy and operating style [including monitoring business risk]
- Organisational structure [to achieve its objectives]
- Assignment of authority and responsibility
- Human resources policies and practices

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**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013**

**ANNUAL INTERNAL AUDIT PLAN 2013-14**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2013-14.

**Background**

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of these affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to internal audit professional standards. On 1<sup>st</sup> April 2013, new Public Sector Internal Audit Standards (PSIAS) replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code).
4. Both the former Code and recently introduced PSIAS require the Head of Internal Audit (at LCCIAS this is the Head of Internal Audit Service – HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the organisation's internal control environment, which the PSIAS further explains is the organisation's framework of governance, risk management and control. In order to do this, the scope of internal audit work needs to be wider than the 'traditional audit' of the financial systems. Both standards require the HoIAS to prepare a risk based internal audit plan which takes account of the organisation's risk management process.

**Terms of Reference**

5. Part of the role of the Finance & Audit Subcommittee (the Subcommittee) is to review audit reports. The Subcommittee should receive and note the annual internal audit plan; regular progress reports against the plan; an annual report on work undertaken and an assessment of the internal audit service effectiveness.

## **Planning Methodology**

6. The methodology underpinning the internal audit planning strategy incorporates two main components. These are the development and maintenance of the 'audit universe' (a list of entities to audit) and the application of a scoring/ranking system against those entities.
7. Given the continuing pace across society of transformational change, new and emerging risk, organisational instability, austerity and the need to make savings, new entities are added to the audit universe each year whilst traditional entities remain on the list but their risk might reduce. To develop the universe the HoIAS researches and evaluates where risk might occur to ESPO using methods including: -
  - a. Consultation about emerging risks, planned changes and potential problems with the Consortium Treasurer and Secretary, Senior Management at ESPO and the External Auditor
  - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
  - c. Comparisons against similar purchasing consortia
  - d. 'Horizon scanning' new and emerging risks from professional and industry sources.
8. Historically, a four year 'strategic plan' would be maintained and (based on frequency) certain audit entities would 'roll into' the annual audit plan. However, other than the necessity to rotate some work on the key financial systems which require cyclical auditing, modern audit planning requires flexibility to ensure that key and emerging risks take precedence when balanced against available internal audit resource and budgets. An improvement in ESPO risk management and governance arrangements and the Director of ESPO's recognition of responsibilities for internal control systems, has allowed the HoIAS to utilise the information in 7 a-d above, to devise the plan.
9. The attached plan for 2013-14 (Appendix 1) contains audits that will allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's framework of governance, risk management and control. The plan shows a wide spectrum of audits covering risks around: -
  - a. Governance – including an audit of the role of LCC as servicing authority
  - b. Operational/business
  - c. Human resources
  - d. ICT
  - e. Financial/trading
10. Part of the plan requires that LCCIAS conducts annual audits on key elements of the general ledger and IT systems. These audits are undertaken in consultation with ESPO's External Auditors (PWC) to assist in their responsibility to form an opinion that ESPO's financial accounts are not materially mis-stated. PWC determines that the quality and scope of

LCCIAS work is sufficient to contribute positively to ESPO's overall control environment and to allow them to place reliance on LCCIAS work.

The indicative objective for each audit is included in the attached plan but the scope is further discussed and agreed in detail at the engagement stage.

### **Progressing the Audit Plan**

11. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. The Internal Auditor's task is to carry out independent and objective reviews and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
12. On completion of each audit a report is issued to the Director of ESPO and the Consortium Treasurer. The opinions reached along with summary findings are reported each quarter to the Subcommittee. If any audit produces a 'high importance' recommendation, then the full report is shared with the Subcommittee, and specific re-testing is undertaken later in the year to prove that control has actually improved and is embedded.

### **Resources Implications**

13. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. Plan days have been retained at 200 for 2013-14 (£56,000) reflecting that whilst there have been significant improvements in the overriding governance frameworks and internal management changes; these have not yet been independently and objectively tested to conclude they are embedded. In addition, transformational change continues apace. The 200 days should enable the HoIAS to provide a sound assurance to the Consortium Treasurer that risks are being managed.

### **Conclusion**

14. The details of the 2013-14 internal audit plan, including a summary of the days allocated, is attached in Appendix 1 to this report. The plan has been presented to the Consortium Treasurer and Secretary and the Director of ESPO for comments and approval.

### **Recommendation**

15. Members are requested to:
  - a) Support the methodology used as a basis for developing the internal audit plan;
  - b) Note the ESPO Internal Audit Plan for 2013-14.

### **Equal Opportunities Implications**

16. At this stage there are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

**Background Papers**

None.

**Officer to Contact**

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**Appendices**

Appendix 1 - Internal Audit Plan 2013-14

## ESPO Internal audit plan 2013-14

Appendix 1

<u>Category</u>	<u>Entity</u>	<u>The audit objective is to ensure that...</u>	<u>General</u>	<u>ICT</u>	<u>Total</u>
Financial	Budget management	There is a sound financial framework for the control of the budget	7		7
Financial	Business forecasting	There is a robust framework for forecasting and acting on triggers	7		7
Financial	Rebates income	Rebates received conform to estimates of supplier business generated <b>note</b> time includes 3 days for closure of 2012-13 work	8		8
Financial	General ledger reconciliations (*)	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock	10		10
Financial	Trading performance & distribution of surplus (*)	The trading results provided by ESPO, both for internal use and reported to the Management Committee, are well founded in the general ledger and the distribution of surpluses process is robust.	10		10
Governance	Performance management	There is a framework to ensure compliance with the Constitution requirements including bencharking	8		8
Governance	Medium Term Financial Strategy	There are robust processes for validating assumptions, monitoring achievements and reporting progress especially against efficiency projects	8		8
Governance	ESPO services	The key principles to providing the individual categories within the ESPO service menu are complied with	8		8
Governance	Collaborative procurement	Framework and other collaborative arrangements do not jeopardise ESPO interests or risk a liability	8		8
Governance	Servicing authority	The servicing authority is achieving its requirements and objectives	8		8

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## ESPO Internal audit plan 2013-14

## Appendix 1

Governance	Governance framework	The requirements of the Consortium Agreement, Constitution and appropriate schedules are embedded	10	10
Governance	Risk management	The revised policy and framework is operating as intended. Lines of defence are understood and complied with.	8	8
Governance	Annual governance statement	There are adequate arrangements to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework.	3	3
Human Resources	Anti fraud and corruption	There is a robust framework for ensuring ESPO staff and management act with integrity and there are procedures and processes to enable concerns to be raised and investigated.	7	7
Human Resources	Attendance management	Management applies a robust and consistent approach to attendance management and attendance is reported and monitored by management team	5	5
Human Resources	Payroll changes	Variations to the ESPO payroll are timely and accurate	3	3
Information & Communications Technology	Electronic transactions	P-card and other electronic transaction methods are PCI compliant	5	5
Information & Communications Technology	Information management	Information is secure both on and off site and in transit and breaches are identified and investigated	4	4
Information & Communications Technology	E-tendering	The security requirements and audit trail are robust	6	6
Information & Communications Technology	Applications management	Risks (e.g. continuity and resilience) to the successful operation of key business management systems within ESPO have been identified and appropriately mitigated.	10	10

**ESPO Internal audit plan 2013-14**

Information & Communications Technology	IT general controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	10	10
Operational	Stock management	The stock management system is effective and accurate so as to facilitate decisions, support financial accounting and mitigate risks (excesses, shortages, wastage and theft)	10	10
Operational	Fleet management	The fleet is managed effectively and efficiently (loading, routing, maintenance etc).	10	10
Operational	Fleet management	Vehicle operating licence requirements are complied with and liability is removed	2	2
Procurement	Supply chain	ESPO identifies, evaluates and monitors its supply chains to ensure integrity and sustainability	10	10
	Client management	Planning & research; progress meetings; servicing the Finance & Audit Subcommittee; confirming implementation of high importance internal audit recommendations External Audit liaison; advice	15	15
		<b>Total internal audit days</b>	<b>165</b>	<b>35</b>
			<b>200</b>	

**(\*) Annual audits undertaken to assist the External Auditors (PWC) to form an opinion that ESPO's financial accounts are not materially mis-stated.**

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**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013**

**AGENDA ITEM NO. ?**

**MITIGATION OF THE RISK OF FRAUD**

**REPORT OF THE DIRECTOR**

**Purpose of Report**

1. The purpose of this report is to outline ESPO's management of the mitigation of the risk of fraud.

**Background**

2. At its meeting on 18 February 2013, the Subcommittee requested that officers report further on ESPO's procedures for the mitigation of the risk of fraud.

**Mitigation of the Risk of Fraud**

3. ESPO adopts the LCC Anti-Fraud and Corruption Policy, strategy and procedures.
4. The risk of fraud is inherent in all businesses, particularly where there is extensive procurement and supplier and customer relationships, as exist at ESPO.
5. In recognising this risk there are a number of first and second tier controls in place to mitigate and highlight where potential risks exist as set out below:

**First Tier Controls**

6. Segregation of duties in the creation of contract arrangements. Key features of this include the requirement for business cases for review and approval by senior management, followed by pre-and post-procurement panels. In the case of energy purchase for example an independent body, the Energy Governance Panel, provides parameters within which to forward-buy sizeable energy tranches and the internal review of that purchase by the Director in the weekly Energy Portfolio record.
7. Review of management information to ensure that rebate income is consistent with framework activity.
8. Trend analysis over time to highlight any deviations from the norm.

9. Maintenance of a Register of Gifts and Hospitality which records all invitations/offers of gifts and the process followed in each case.
10. Thorough vetting of CV's.

### Second Tier Controls

11. Operation of internal and external audits, including spot checks.
12. Perpetual inventory stock control to mitigate potential loss of stock.
13. Appropriate scrutiny of any significant financial transactions.
14. None of the primary nor secondary tiers have highlighted the existence of any fraud at ESPO

### Training and Awareness

15. ESPO recognises that the success of the Anti-Fraud and Corruption Policy will depend on the training of new and existing employees and the continuing awareness of staff throughout ESPO. To raise awareness, this policy will form part of the induction process for new employees, and managers are responsible for disseminating the policy and promoting fraud and bribery awareness.
16. There are some typical warning signs and alerts that may indicate that fraud or bribery may be taking place. These include:
  - Non-separation of duties
  - Remote locations lacking supervision Untidy or immaculate record keeping
  - High incidence of error
  - Individuals who appear to live beyond their means
  - Individuals who have a very close relationship with suppliers
  - An individual who is generally dismissive of rules
17. Comprehensive training will be given to those individuals who are directly responsible for investigating fraud and corruption cases to ensure a consistent and objective approach is always maintained.

### Maintaining and Reviewing Fraud and Corruption Protection Arrangements

18. The arrangements will be assessed on an ongoing basis whether the policies and procedures in relation to fraud and bribery are

adequate to manage effectively the risks faced by the organisation and whether they are being effectively implemented.

19. The Anti-Fraud and Corruption Policy and any other associated policies and procedures will be reviewed following any changes to the nature and scale of activities or external stimuli, eg government changes in countries we deal with etc, to ensure the ongoing suitability of the policy.
20. Where fraud or bribery has occurred a full review of all relating policies, procedures and controls will take place to identify if a breakdown in controls was responsible for the incident or whether further controls need to be introduced to minimise the risk of re-occurrence.

### **Resources Implications**

21. None.

### **Recommendation**

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

### **Equal Opportunities Implications**

23. None

### **Risk Assessment**

24. None required.

### **Background Papers**

25. None.

### **Officer to Contact**

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### **Appendices**

None

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