



Date: 1 June 2015
My Ref: BH/ESPO
Please ask for: Ben Holihead
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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 at on Tuesday, 9 June 2015 at 10.30 am in the Executive Room, County Hall, Glenfield.

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,

Ben Holihead
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Election of Chairperson for the municipal year 2015/16. Cllr. I. Monson has been nominated by Norfolk County Council.	
2.	Minutes of the meeting held on 23 February 2015.	(Pages 3 - 8)
3.	Declarations of interest in respect of items on the agenda.	
4.	To advise of any other items which the	



Chairman has decided to take as urgent elsewhere on the agenda.

5. Draft Outturn 2014/15. (Pages 9 - 16)
Report of the Consortium Treasurer.
6. Internal Audit Service Annual Report 2014/15. (Pages 17 - 34)
Report of the Consortium Treasurer.
7. Internal Audit Plan 2015/16. (Pages 35 - 42)
Report of the Consortium Treasurer.
8. Date of next meeting.
The next meeting will take place on Tuesday 8th September 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 Draft Outturn. (Pages 43 - 50)
Report of the Consortium Treasurer.
(Exempt under paragraphs 3 and 10 of Section 10(A))

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 23 February 2015.

PRESENT

Mr. J. Clarke CC (in the Chair)

Dr. R. K. A. Feltham CC
Mr. I. Monson CC

Mrs. S. Rawlins CC

70. Apologies.

Apologies were received from David Seaton CC (Peterborough) and Roger Hickford CC (Cambridgeshire).

71. Minutes of the meeting held on 17 November 2014.

The minutes of the meeting held on 17 November 2014 were taken as read, confirmed and signed.

72. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

73. Declarations of interest in respect of items on the agenda.

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.

74. Management Accounts to December 2014.

The Subcommittee considered a report of the Director and Consortium Treasurer setting out the results of the first nine months of trading from April to December 2014. A copy of the report, marked 'agenda item 4', is filed with these minutes.

Arising from discussion the Subcommittee was advised:-

- (i). As had been reported at previous meetings, total sales were behind budget due to lower gas sales. Members were informed that this was primarily due to a mild winter resulting in approximately 14% lower usage and was not as a result of customer loss;
- (ii). Although energy prices were significantly lower the benefits of this would not be immediate due to forward purchasing and that the benefits would be seen in the next contract round;

- (iii). Rebate income was higher as these were being collected quarterly as opposed to on an annual basis. This would mean a lower rebate collection figure would be reported in April/May than in previous years;
- (iv). Expenditure had increased due to an increased use of agency staff to alleviate the pressure experienced during the summer. Whilst the hourly rate of agency staff was higher than staff directly employed by ESPO, the employment of agency staff provided greater flexibility in terms of responding to short-term peaks and should also be seen as an investment in improved customer service;
- (v). Changes in the warehouse had been made which had improved efficiency though more needed to be done (the warehouse had not been behind on orders since the start of the year which was a considerable achievement);
- (vi). ESPO followed the same arrangements as Leicestershire County Council as the servicing authority in regards to all HR matters including pensions, and employees of ESPO were able to opt-out of the pension scheme.

RESOLVED:

That the contents of the report be noted.

75. Progress against the Internal Audit Plan.

The Subcommittee considered a report outlining the progress of Leicestershire County Council's Internal Audit Service against the internal audit plan, and any audit work where high importance recommendations had been made. A copy of the report, marked 'Agenda Item 5', has been filed with these minutes.

The Subcommittee was updated on progress that had been made against the audits outlined in the position statement (attached as 'appendix 2' to the report).

RESOLVED:

That the progress against the internal audit plan be noted.

76. Change to the order of business.

RESOLVED:

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

77. 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 'Internal Audit Highlight Report – GEMS Replacement' 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.'

78. Internal Audit Highlight Report - GEMS Replacement.

The Subcommittee received an exempt report of the Consortium Treasurer setting out the highlighted action points that needed to be addressed for the GEMS replacement. A copy of the exempt report, marked 'Agenda Item 11', is filed with these minutes.

RESOLVED:

That the Internal Audit Highlight Report be noted.

(THE MEETING THEN RECONVENED INTO PUBLIC SESSION).

79. Internal Audit Charter.

The Subcommittee considered a report of the Consortium Treasurer outlining the Internal Audit Charter for ESPO and to inform the Subcommittee of the progress against the Quality Assurance and Improvement Programme. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The Subcommittee was informed that the common terms found throughout the Public Sector Internal Audit Standards were interpreted to fit the arrangements of ESPO. The Finance and Audit Subcommittee was deemed to be the 'Board' and the Director of ESPO, the Consortium Secretary and Consortium Treasurer were considered to be the 'Senior Management'.

RESOLVED:

- a) That the report on the Internal Audit Charter and the update on the Quality Assurance and Improvement Programme be noted;
- b) That the Internal Audit Charter be recommended for approval to the Management Committee.

80. Governance Over Managing the Risk of Fraud.

The Subcommittee considered a report of the Consortium Treasurer containing the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, and the progress made against the adoption of the Servicing Authority's policies and procedures against fraud and corruption (including the recently revised Employee Code of Conduct). A copy of the report, marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion members were advised:-

- (i). As an organisation that undertook extensive procurement, the risk of fraud and corruption within ESPO was inherently greater than in other businesses;
- (ii). ESPO had volunteered to take part in the National Fraud Initiative which was run by the Audit Commission. ESPO had recently received reports back from the Audit Commission based on data submitted by ESPO which was being further analysed. Members expressed their support for ESPO for taking part in this initiative;
- (iii). The revised Employee Code of Conduct for Leicestershire County Council would be adopted to reflect the circumstances prevailing at ESPO;

- (iv). The Consortium Secretary had met with the senior management team at ESPO to discuss the Employee Code of Conduct. The Director would be meeting with ESPO managers on Friday to discuss the internal publicity and roll out of the revised Employee Code of Conduct;
- (v). ESPO kept very little cash on site and only occasionally received cash payments. With regard to money laundering ESPO was mindful of its responsibilities and any suspicious activity would be drawn to the attention of the law enforcement agencies.

RESOLVED:-

- a) That the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption be recommended for approval by the Management Committee;
- b) That the progress made in adopting the Servicing Authority's anti-fraud policies and revised Employee Code of Conduct be noted.

81. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 9 June 2015 at 10.30am at County Hall.

82. 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 2014/15 and draft MTFS 2015/16 – 2018/19' 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.

83. Forecast Outturn 2014/15 and draft MTFS 2015/16 - 2018/19.

The Subcommittee received an exempt report of the Director and Consortium Treasurer updating the Subcommittee on the financial implications of the draft Four Year Medium Term Financial Strategy 2015/16 - 2018/19, and to present the draft budgets. A copy of the exempt report, marked 'Agenda Item 10', is filed with these minutes.

RESOLVED:

- a) That the draft four year medium term financial strategy be noted;
- b) That the forecast outturn for 2014/15 and draft budgets for 2015-16, 2017-18, 2018-19 be noted;
- c) That the forecast outturn and draft MTFS 2014/15 – 2017/18 be brought to the attention of the Management Committee.

10.28 am - 12.00 pm
23 February 2015

CHAIRMAN

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 JUNE 2015

DRAFT OUTTURN 2014/15

REPORT OF THE CONSORTIUM TREASURER

Introduction

1. This report sets out the draft outturn for 2014/15 with explanations for the more significant variances to prior year, budget and forecast. Members should note that the outturn will be subject to external audit. A summary profit and loss statement (P&L) is presented below:

	Mar-15			
	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
TOTAL SALES	93,588.5	99,720.0	95,605.3	94,019.2
TOTAL MARGIN	20,196.8	18,693.9	19,329.4	18,643.4
Margin %	21.6%	18.7%	20.2%	19.8%
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6
TRADING SURPLUS	2,221.1	2,171.5	2,382.8	2,683.8

Trading Summary**Income**

Mar-15

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>SALES</u>				
STORES	43,403.1	44,140.7	42,333.8	40,316.1
DIRECT	20,508.5	19,519.1	21,625.5	23,296.1
GAS	22,710.8	30,582.0	25,472.5	24,404.2
CATALOGUE ADVERTISING	799.7	940.2	930.5	918.5
REBATE INCOME	5,994.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	200.0	193.2	226.3
TOTAL SALES	93,588.5	99,720.0	95,605.3	94,019.2

2. Overall the organisation's invoiced turnover for the year including rebates was £93.6m. This was 2.0% (£2m) lower than the prior year which was primarily due to lower gas sales and direct, offset by higher rebates.
3. Stores' sales value has increased this year, compared to the prior year, by £1.1m (3%) to £43.4m. This increase is all volume related as price increases for 2014-15 were minimal. Sales to member authorities including academies have increased by 2%, while sales to other authorities have increased by 8%.
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 coming to an end in October 2013 the Directs catalogue products business decreased to £20.5m from £21.6m the prior year, a fall of 5.3%. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.
6. Rebate income was £5.9m an increase of £0.9m on prior year. The reasons for the increase are as follows:
 - Increased usage of framework contracts
 - A number of one off rebates linked to specific procurement activities
 - A change in process such that the collection of rebates is now a joint effort between finance and procurement.

This has been achieved while continuing to reduce rebate margin from our suppliers.

7. Catalogue advertising was £0.8m and was consistent with forecast. The variance to budget is due to some cross over with rebate income at the time the invoices were raised.
8. Compared to last year overall sales are £2.1m lower driven by lower gas sales offset by higher rebates.
9. Compared to forecast overall sales are £0.6m lower driven by lower gas sales and slightly lower store sales.

Margin

10. Stores margin (mark up) decreased to 31.9% compared to 32.2% in the budget. The budget reflected the pricing strategy of low prices the variance was down to slightly higher pallet and packaging costs.
11. Directs margin (mark up) was 13.3% compares to 12.1% in the budget. This was driven by improved supplier performance (less credits and restocking charges) and improved mix.
12. Total margin was £20.2m compared to a prior year of £19.3m, mainly as a result of higher rebates but also improved directs sales margin.
13. Compared to forecast total margin was £0.5m higher driven once again by higher rebates and improved directs margin.

Expenditure

Mar-15

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>EXPENDITURE</u>				
EMPLOYEES				
Staff	9,847.5	9,551.7	9,304.2	9,560.5
Agency/Contract	1,467.1	901.8	1,085.3	830.0
Total	11,314.6	10,453.5	10,389.5	10,390.4
OVERHEAD EXPENSES				
Stores	4,157.3	3,960.6	4,095.4	3,837.5
CP	2,503.9	2,108.2	2,461.6	1,731.7
Total	6,661.2	6,068.8	6,557.0	5,569.2
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6

14. Total expenditure increased by £1.0m compared to last year. The key elements of this are as follows:
- Transport costs increased by £0.2m. This is mainly as a result of the aged fleet but also down to increased carrier costs. The issue of “to follow” orders also had an impact as stock levels fell over the summer months and stock availability suffered as a result.
 - Higher agency costs of £0.4m as a result of the difficulties encountered over the summer peak.
 - Higher staff costs due to the impact the full year impact of new starters and new marketing and communications staff.
 - Bad debt provision reduced by £0.08m to £0.04m as a result of lower debtor days and improved cash collections. The provision has been prepared on a consistent basis to prior years and is considered sufficient to cover known risks.
15. Compared to forecast total expenditure was £0.3m higher. The key elements of this are as follows:
- Higher agency costs in Q4
 - Higher transport costs linked to the aged fleet.
 - Increased car lease balloon payments.
16. Total expenditure as a percentage of sales excluding gas rose to 25.2% compared to the prior year 24.2%.

Summary

17. The Net Surplus for the year was £2.2m which is in line with budget and £0.2m higher than forecast. Whilst £0.2m lower than last year this is as a result of increased expenditure offset by higher rebates and improved direct margins.
18. Arising from the 2014-15 out-turn the key impact on next year’s budget would be the higher than forecast overheads at £17.9m. The budget for 2015-16 is £17.9m. In May the Leadership Team met to evaluate opportunities and risks so that particular courses of action have been identified to ensure overheads and surplus remains on track to be delivered for 2015-16.
19. Further information which informs the Draft Outturn 2014/15, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting, this includes:
- a) Analysis of underlying profitability compared to MTFS
 - b) Detailed breakdown of the overhead expenditure
 - c) Analysis by Service Lines
 - d) Detailed Balance Sheet
 - e) Staffing Analysis

Service Line Analysis

20. The operating surplus before central allocations for Stores was £2.4m against a budget of £2.9m due to principally higher agency costs

21. Framework Contracts achieved an operating surplus of £2.9m against a budget of £2.5m. This was driven entirely by higher rebates achieved at year end.
22. Energy and Fuels operating surplus was £0.9m against a budget of £0.8m.
23. The detailed Service Line Analysis is included in the exempt part of the report elsewhere on the agenda.

Allocations from Operating Surplus

24. A continued further allocation of £0.4m is proposed to be used for the Building Maintenance and Capital Provision. The provision is necessary to ensure the building is maintained at an acceptable standard with funds allocated and available to meet general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.
25. It is proposed to deliver a return to members in excess of the forecast in March 2015. The forecast was for a surplus of £2.0m less the £0.4m for the building provision. This would leave a £1.6m forecast surplus of which members receive 80% or £1.3m. The actual dividend to Members will be £1.4m

Distribution of Surplus:

26. The breakdown of the distribution of the surplus is thus as follows:

£m	<u>2015</u>	<u>2014</u>
Operating Surplus	2.2	2.4
Building Provision	0.4	0.4
Warehouse automation	0.0	0.1
Net Surplus	1.8	1.9
General Fund	0.4	0.4
Dividend	1.4	1.5

27. The amount available for distribution after the above allocations to reserves is £1.80m of which 80% (£1.4million) is attributable to member authorities as a dividend. Year on year the member dividend has thus been reduced by £0.1 compared to the prior year.

ESPO Balances

28. 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 2014/15 £0.4m 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, this is not expected to be reached during the period of the current MTFS.

A breakdown of reserves as at 31st March 2015 is as follows:

Analysis of Reserves 31/3/2015 £k

Analysis of Cash Reserves	<u>6084</u>
Strategic Review Implementation	<u>400</u>
Property Replacement	<u>1200</u>
Total Renewals Funds Reserve	<u>3756</u>

Earmarked Projects

Legal Reserve	235
Warehouse Automation	100
Balance on Indigo and other projects over time	393
Total Earmarked Projects	<u>728</u>

Recommendation

29. The Subcommittee is asked to recommend to the Management Committee:
- (a) approval of the draft out turn for 2014/15;
 - (b) allocations from the operating surplus for 2014/15 as outlined in paragraphs 23 and 24 of this report;
 - (c) payment of the dividend, subject to approval of the accounts in September 2015, as outlined in paragraphs 25 and 26 of this report;

Officer to Contact

Mr C Tambini – Treasurer to the Consortium (Tel: 0116 305 7831)

List of Appendices

Appendix 1 – ESPO Management Accounts for Year End 31 March 2015

Mar-15

	ACTUAL 2014-15 £000	Full Year Forecast 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012- 13 £000
SALES					
STORES	43,403.1	43,505.7	44,140.7	42,333.8	40,316.1
DIRECT	20,508.5	19,703.0	19,519.1	21,625.5	23,296.1
GAS	22,710.8	24,945.0	30,582.0	25,472.5	24,404.2
CATALOGUE ADVERTISING	799.7	801.1	940.2	930.5	918.5
REBATE INCOME	5,994.3	5,041.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	146.7	200.0	193.2	226.3
TOTAL SALES	93,588.5	94,142.8	99,720.0	95,605.3	94,019.2
excluding gas	70,877.7	69,197.8	69,138.0	70,132.8	69,615.0
Cost of Sales					
STORES	32,902.9	32,670.8	33,391.6	31,680.1	30,467.7
DIRECT	18,101.7	17,418.0	17,410.0	19,526.2	20,790.6
GAS	22,387.0	24,655.0	30,224.5	25,125.0	24,117.5
CATALOGUE ADVERTISING	0.0	0.0	0.0	0.0	0.0
REBATE INCOME	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS INCOME	0.0	0.0	0.0	0.0	0.0
TOTAL COST OF SALES	73,391.7	74,743.8	81,026.1	76,331.4	75,390.3
Margin					
STORES	10,500.2	11,027.7	10,749.1	10,653.7	9,848.4
DIRECT	2,406.7	2,285.0	2,109.1	2,099.3	2,505.5
GAS	323.8	290.0	357.5	347.5	286.7
CATALOGUE ADVERTISING	799.7	801.1	940.2	930.5	918.5
REBATE INCOME	5,994.3	5,041.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	196.7	200.0	248.7	226.3
TOTAL MARGIN	20,196.8	19,641.9	18,693.9	19,329.4	18,643.4
EXPENDITURE					
EMPLOYEES					
Staff	9,847.5	9,850.1	9,551.7	9,304.2	9,560.5
Agency/Contract	1,467.1	1,363.4	901.8	1,085.3	830.0
Total	11,314.6	11,213.5	10,453.5	10,389.5	10,390.4
OVERHEAD EXPENSES					
Stores	4,157.3	4,163.3	3,960.6	4,095.4	3,837.5
CP	2,503.9	2,244.1	2,108.2	2,461.6	1,731.7
Total	6,661.2	6,407.3	6,068.8	6,557.0	5,569.2
TOTAL EXPENDITURE	17,975.7	17,620.8	16,522.3	16,946.6	15,959.6
TRADING SURPLUS	2,221.1	2,021.0	2,171.5	2,382.8	2,683.8
excl gas					
EMPLOYEES NUMBERS (Full-time equivalents):					
Stores	168		181	163	170
Purchasing	89		106	97	88
Indirects	84		80	81	83
TOTAL EMPLOYEES	342		367	341	340
Income per Employee (FTE)	£ 60,894.0		50,929.0	56,723.0	54,767.0
Average Cost per Employee	28,832.0		26,022.0	27,333.0	28,085.0

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 JUNE 2015

AGENDA ITEM NO.6

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2014-15

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Subcommittee with an annual report on internal audit work conducted during 2014-15.

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) led by the Head of Internal Audit Service (HoIAS) to provide internal audit for ESPO. LCCIAS must conform to the United Kingdom Public Sector Internal Audit Standards (PSIAS) and the accompanying CIPFA Local Government Advisory Note (LGAN). Together, these documents constitute proper practices to satisfy the requirements set out in the Accounts and Audit Regulations 2011 to '*undertake an adequate and effective internal audit of accounting records and of the system of internal control*'.
4. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the annual governance statement. The Internal Audit Charter for ESPO defines the Management Committee as the Board and recognises that it should formally approve the HoIAS' annual report.
5. The annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

- e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement
6. This annual report precedes the draft Annual Governance Statement which will be presented to the Management Committee at its meeting on 24 June 2015. The finalised Annual Governance Statement will accompany the Statement of Accounts, which will be presented to the Subcommittee at its next meeting on 8 September prior to final consideration and approval by the Management Committee at its meeting on 28 September.

Internal Audit Service Annual Report 2014-15

7. The annual report for 2014-15 is provided at Appendix 1.
8. Headlines from the report are: -
- a. Overall, positive opinions were given in all three components of the 'control environment' i.e. the framework of governance, risk management and control
 - b. The majority of audits conducted returned substantial assurance ratings
 - c. 80% of planned jobs were achieved with only a small carry over and three cancellations
 - d. Considerable effort was invested into developing and implementing corporate governance improvements
 - e. LCCIAS abides by the principles of the PSIAS but there is need for some key improvements before full 'conformance' can be claimed. This is the only matter required to be reported in the Annual Governance Statement.

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. 6 additional days were provided over the planned 185. The total charge to ESPO was £52,300.

Recommendation

11. That the Subcommittee notes the Internal Audit Service annual report for 2014-15

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 Public Sector Internal Audit Standards (2013)

Officer to Contact

Neil Jones	Telephone	0116 305 7629
Head of Internal Audit Service	Email	Neil.Jones@leics.gov.uk

Appendices

Appendix 1 - Internal Audit Service Annual Report 2014-15

Annex 1 - The HoIAS Annual Opinion on the adequacy and effectiveness of ESPO's control environment

Annex 2 - Summary of Internal Audit Service work April 2014 to March 2015 from which the overall opinion is derived

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ESPO

Leicestershire County Council Internal Audit Service Annual Report 2014-15



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

27th May 2015

LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2014-15

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. Definition of Internal Auditing
 - ii. Code of Ethics
 - iii. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.
3. 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
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (Management Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of ESPO's Control Environment

6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions have been drawn:-

Governance

There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management

ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed

Financial and ICT Control

Reasonable 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.

8. None of the sub-opinions were qualified.
9. At the time of writing this report, the outcomes of three audits hadn't been shared with the Director. It is unlikely there will be any significant changes to the sub opinions.

A summary of the audit work from which the opinion is derived

10. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.

11. Almost all of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Based on the answers provided during the audits and the testing undertaken, the majority of the audits returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they did not have a "high importance" rating signifying a particularly serious control weakness had been identified. The audits of the general ledger reconciliations and ICT general controls are utilised by the External Auditor. All recommendations were accepted.
12. One audit on the project management arrangements for the replacement for the GEMS energy system returned only a 'partial assurance' rating. This was because two "high importance" recommendations were identified due to delays in migrating data and arranging user testing, denoting there was an absence of control and as such achievement of the project's objectives was open to material risk exposure. These were known to, and accepted by the Project Board and the Director of ESPO promptly provided verbal assurances on both progress made and updated plans for implementation. This will be substantiated by the auditor in 2015-16. All recommendations were accepted.
13. Two 'consulting' type audits were undertaken. These can be defined as, '*Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes*'.
14. During 2014-15, ESPO volunteered to supply both its payroll and creditors data to the 'National Fraud Initiative' a nationwide counter-fraud data-matching exercise.
15. There was only minor 'indirect' reliance placed on other assurance providers during the year, through evaluating the roles and responsibilities of accredited food safety organisations' during the audit of managing supply chain risk.
16. There were no known impairments or restrictions to scope.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

17. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2014-15 internal audit plan

	<u>Audits</u>	<u>Complete @ 22/5</u>	<u>Incomplete @ 22/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 13-14	5	5	-	10	15	+5
Follow up HI recs	1	1	-	-	-	-
Planned	23	17	3	155	132	-23
Planned not started	-	-	3	-	-	-
Unplanned	-	3	-	-	7	+7
Client management	-	-	-	20	36	+16
Total	29	27	6	185	191	+6

18. Three planned audits were incomplete at 22nd May, applications management, rebates income and servicing authority role, due to a mixture of both untimely scheduling and delays in quality assurance review by LCCIAS. Some resource has already been utilised in 2015-16 completing these audits.
19. Three planned audits were not started: -
- Governance framework – no particular reason but evidence was gained in the HoIAS attendance at committees and various meetings with the Consortium Treasurer and Secretary and the Director of ESPO.
 - Business Strategy (individual projects) was held back pending ESPO developing the governance framework for the four year Strategy.
 - Counter fraud – delayed pending governance work in adopting both the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the County Council's suite of revised and new anti-fraud policies and strategies.
20. There were three unplanned audits: -
- Attendance management – close a 2013-14 brought forward job
 - National Fraud Initiative submission of data and interpret results
 - Staff purchase scheme – second opinion on the handling of a complaint
21. Client management was significantly higher than planned due to the HoIAS requirement to develop and implement key governance improvements i.e. the Internal Audit Charter for ESPO, the aforementioned CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the additional impact of attending Management Committee to present them.
22. During the year LCCIAS implemented a new internal audit case management system. This has not been without its problems and data quality has been a significant issue so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This is a key improvement area for 2015-16. Nevertheless, can provide assurance that there has been rigorous monitoring of due professional care and quality.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

23. The HoIAS has conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform, and state so in documents and correspondence.
24. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Y = fully conforms
 - Y/P = mostly conforms with some minor areas for improvement
 - P = a balanced result which partly conforms
 - P/N = only some conformance with a real need for improvement
 - N = doesn't conform at all

Table 2 : Summary self-assessment against conformance to PSIAS

Does LCCIAS conform to PSIAS	Y	Y/P	P	P/N	N
1 Definition of Internal Auditing		X			
2 Code of Ethics		X			
3 Attribute Standards (combined)		X			
1000 Purpose, Authority and Responsibility	X				
1100 Independence and Objectivity		X			
1200 Proficiency and Due Professional Care		X			
1300 Quality Assurance and Improvement Programme				X	
4 Performance Standards (combined)			X		
2000 Managing the Internal Audit Activity			X		
2200 Engagement Planning		X			
2300 Performing the Engagement			X		
2400 Communicating Results		X			
2500 Monitoring Progress			X		
2600 Communicating the Acceptance of Risks			X		

25. A detailed list of actions required has been discussed with the Consortium Treasurer. Of these, the need to embed and review progress against the recently implemented Quality Assurance and Improvement Programme (QAIP) is a priority. This is a new requirement for all internal audit providers, and whilst it doesn't mean that quality isn't being managed at LCCIAS, there is a formal requirement to document and prove it.
26. PSIAS 1321 informs that the HoIAS may only state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

Any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

27. The HoIAS has not come across any governance, risk management or internal control issues that would need to be disclosed as key improvement areas or significant governance issues.
28. However, under PSIAS 1322, whilst the results of the HoIAS' self-assessment against conformance to the PSIAS is not considered a significant deviation from the PSIAS, the Consortium Treasurer considers that the reference to continuing actions (including progressing the QAIP) should be recorded as a key improvement area.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

28th May 2015.

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**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2014-15**



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

27th May 2015

Background

During the financial year 2014-15, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit activity to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is for a specific time interval i.e. 2014-15 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed, are formed by applying systematic grading to remove any elements of subjectivity.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the ESPO control environment. However, the caveat at the end of the document explains what internal control cannot do i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of Budget Management; ESPO Services; Business Strategy; Risk Management; Annual Governance Statement; Information Management and Staff purchase scheme. Recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. During the year, Management Committee approved an Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity, and adopted the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption.

The HoIAS has regular discussions with the ESPO Director and Assistant Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits. During the year, the Director of ESPO made arrangements to adopt Leicestershire County Council's (the Servicing Authority's) revised Employee Code of Conduct and a suite of revised and new anti-fraud and corruption policies, strategies and procedures, improving guidance to employees.

HolIAS opinion: - There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HolIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

An audit of the project management arrangements for the replacement of the GEMS energy management system identified two high importance recommendations. Verbal assurances on implementing the actions were received and it is planned to conduct a short follow up audit in 2015-16.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management, although re-alignment of key risks to the strands of the four year Strategy and further embedding at operational level would strengthen arrangements. Recommendations have been accepted and so a follow up audit will take place in 2015-16 to confirm their implementation.

Other specific audits conducted that linked to risk management were Applications Management; Supply Chain and Procurement & Compliance Risk Management

The HolIAS advises the External Auditor on ESPO's management of fraud risk.

HolIAS opinion: ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken on ESPO's Rebates Income; General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards; IT General Controls - External Auditor Reliance; Stock Management; Fleet Management and E-Tendering. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. ESPO volunteered to submit employee and creditors data into the National Fraud Initiative data matching (counter fraud) exercise

HolIAS opinion: Reasonable 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.

Dated 27th May 2015
Signed Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council

The control environment

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management, regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

<u>Control environment component</u>	<u>Audit</u>	<u>Final Report Issued (or position @ 22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Internal control	B/F - Servicing Authority	28-May-14	Substantial Assurance	No
Governance	B/F - Anti Fraud & Corruption Framework	Will pick up in 15-16 now that LCC revised policies have been circulated	None	
Internal control	B/F - Key ICT Controls	01-Aug-14	Substantial Assurance	No
Internal control	B/F - Rebates Follow up HI recs	03-Apr-14	Substantial Assurance	No
Internal control	B/F - Rebates Income	09-Jun-14	Substantial Assurance	No
Governance	B/F - Attendance Management	08-Apr-14	Substantial Assurance	No
Internal control	B/F - Energy	15-Jul-14	Substantial Assurance	No
Governance	Budget Management	28-May-14	Substantial Assurance	No
Governance	ESPO Services	13-Feb-15	Substantial Assurance	No
Governance	Business Strategy	Audit postponed due to Director commissioning a Project Health Check by LCC Transformation Unit	Consulting	No
Governance	Risk Management	05-Mar-15	Substantial Assurance	No
Governance	Annual Governance Statement - 13/14 closedown in 14/15	21-Aug-14	Substantial Assurance	No
Governance	Annual Governance Statement – 14/15	31-Mar-15	Consulting	No
Governance	Information Management	Draft issued	Substantial Assurance	No
Governance	Staff purchases	26-Feb-15	Substantial Assurance	No

33

<u>Control environment component</u>	<u>Audit</u>	<u>Final Report Issued (or position @ 22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Risk management	GEMS Replacement	04-Dec-14	Partial Assurance	Yes
Risk management	Applications Management	Draft being reviewed	TBC	
Risk management	Supply Chain	21-May-15	Substantial Assurance	No
Risk management	Procurement & Compliance Risk Management	Key elements were covered in two other audits. Additional areas identified for testing in 15-16	N/A	
Internal control	Rebates Income	Draft being reviewed	TBC	
Internal control	General Ledger Reconciliations - External Auditor Reliance	02-Apr-15	Substantial Assurance	No
Internal control	Trading Performance	22-May-15	Substantial Assurance	No
Internal control	Distribution of Surplus	25-Feb-15	Substantial Assurance	No
Internal control	Servicing authority	Work in progress	TBC	
Internal control	Payment Cards	26-Feb-15	Substantial Assurance	No
Internal control	IT General Controls - External Auditor Reliance	14-May-15	Substantial Assurance	No
Internal control	Stock Management	04-Jul-14	Substantial Assurance	No
Internal control	Fleet Management	22-May-15	Substantial Assurance	No
Internal control	E-Tendering	Draft issued	Substantial Assurance	No
Internal control	NFI - ESPO	Outputs received & being evaluated	Investigatory	No

Planned audits not started

- Governance Governance Framework
- Risk management Counter Fraud
- Risk management Business Strategy - individual projects



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 JUNE 2015

AGENDA ITEM NO. 7

ANNUAL INTERNAL AUDIT PLAN 2015-16

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 2015-16.

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 the Public Sector Internal Audit Standards 2013 (the PSIAS).
4. The 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 control environment (the framework of governance, risk management and control). In order to do this, the scope of internal audit work needs to be wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
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 and an annual report on work undertaken containing the annual opinion, a summary of work supporting the opinion and information on the internal audit function's effectiveness.

Planning methodology

6. The Director of ESPO fully acknowledges the roles and responsibilities of his Senior Management Team to identify and manage risk and where it is required, to design, implement and operate robust internal control systems. Targeted internal audits have identified continuing improvements to governance and risk management at ESPO, so to ensure that current and emerging risks are adequately covered the audit plan is primarily based on the contents of the Corporate Risk Register, Major Risk Records, governance arrangements for achieving the Four Year Business Strategy and the Annual Governance Statement.

7. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the Director of ESPO (the Director) and his Senior Management Team, the Consortium Treasurer and Secretary and the External Auditor
 - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - c. Identification and evaluation of the robustness of other forms of assurance received
 - d. Where possible comparisons against similar purchasing consortia audit plans
 - e. 'Horizon scanning' new and emerging risks from professional and industry sources
 - f. The risks to critical 'business as usual' systems when focus shifts elsewhere

7. Part of the plan requires 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.

8. Any other significant projects including ICT or information governance developments would be targeted for audit. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations and an allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc).

9. The approach to audits can be categorised as: -
 - a. Assurance type –
 - b. Consulting type -
 - c. Investigatory –

The internal audit plan 2015-16

10. The attached plan for 2015-16 (Appendix 1) contains a wide scope of audits that will allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment (its framework of governance, risk management and control). It hasn't been possible this year to compare the scope of ESPO's plan.
11. A small amount of resource has been planned to finalise 2014-15 audits. A number of audits not started in 2014-15 are deemed to be of sufficient importance to be included in 2015-16.
12. The first column indicates which component of the control environment the audit primarily matches (there is often overlap) and the third column is an attempt to match to ESPO's current Key Risk Register (again there is some overlap)
13. New audits this year include: -
 - a. A detailed evaluation of the components of the control environment to ensure they satisfy requirements in new Accounts and Audit Regulations from April 2015
 - b. The governance framework audit may include a review of effectiveness of a particular committee
 - c. How robust is information to management to make key decisions e.g. on developing or ending frameworks
 - d. How transparent is ESPO compared to its competitors
 - e. Do the alternative warehouse arrangements provide value for money and don't incur risks of losses or liability
 - f. Is the mechanism for distributing surplus robust
 - g. Are new transport arrangements providing value for money

Progressing the Audit Plan

14. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
15. On completion of each audit a report, findings will be discussed with the appropriate risk owner (Assistant Director) before issuing a report to the Director of ESPO and the Consortium Treasurer. The opinions reached, along with summary findings are reported each quarter to the Subcommittee.

16. 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

17. The budget for the provision of the internal audit service (£52,000) is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. Plan days for 2015-16 have been retained at 185. This coverage should enable the HoIAS to provide reasonable assurance to the Consortium Treasurer that risks are being managed.

Conclusion

18. The details of the 2015-16 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, Consortium Secretary and the Director of ESPO for comments and approval.

Recommendation

19. The Subcommittee is requested to:
 - a) Support the methodology used as a basis for developing the internal audit plan;
 - b) Note the ESPO Internal Audit Plan for 2015-16.

Equal Opportunities Implications

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 2015-16

<u>Control env't component</u>	<u>Entity</u>	<u>KRR</u>	<u>The indicative audit objective is to ensure that...</u>	<u>Days</u>
Various	Incomplete from 2014-15	Var	Trading, Supply Chain, Business Strategy, Information Management, Applications Management, Rebates Income, Fleet Management, Key ICT Controls, E-Tendering, Procurement & Compliance risk management, Annual Governance Statement, Servicing Authority	15
Governance	Annual governance statement	8	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	7
Governance	Business Strategy/Transformation	2&25	Attainment of the objectives of the Strategy is well governed - follow up work commisioned from Transformation Unit	2
Governance	Control environment	8	The obligations of the revised Accounts and Audit Regulations applicable from April 2015 to have a sound system of internal control are met	5
Governance	Governance framework	8	The requirements of the Consortium Agreement, Constitution and appropriate schedules are embedded - to include role of Servicing Authority and potentially a review of the effectiveness of Committees	6
Governance	Information management	8	The Payment Card Industry requirements are complied with	5
Governance	Management Information	36	Strategic & operational decision making (e.g. develop or end frameworks) is based on good quality information	8
Governance	Risk management	8	Recommendations from 2014-15 are implemented	2
Governance	Transparency	8	Comparison against other purchasing organisations	5
Risk management	Business Strategy/Transformation	25	Control design (of specific project(s)) is adequate to mitigate risk	10
Risk management	Customer satisfaction	2, 10 & 41	The risks of customer loss are identified and mitigated	7
Risk management	Counter Fraud - NFI specific	20	Interpretation and investigation of outputs	2
Risk management	Counter Fraud	20	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity	5
Risk management	ICT applications	1, 36 & 42	HI recommendations from the GEMS projects are implemented and the Aurora upgrade due in 2016 is adequately planned	5
Risk management	Procurement & Compliance risk management	26,32&35	The framework is sufficiently robust to prove effectiveness and avoid liability. To include ESPO's adherence to The Public Contracts Regulations 2015	7
Internal control	Warehousing	39	The temporary warehouse arrangements are adequately managed to attain vfm, avoid stock losses and avoid liability	5

ESPO Internal Audit Plan 2015-16

<u>Control env't component</u>	<u>Entity</u>	<u>KRR</u>	<u>The indicative audit objective is to ensure that...</u>	<u>Days</u>
Internal control	BACS	20	Access is controlled and transactions are validated	5
Internal control	Distribute Surplus - Design	8	The design and security of the revised financial model is robust	2
Internal control	General ledger reconciliations (*)	8&20	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock	12
Internal control	IT general controls (*)	1	The range of controls expected by the External Auditor are well designed and consistently applied.	10
Internal control	Rebates income	27, 42 & 45	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	5
Internal control	Servicing authority	8	The servicing authority is providing service in line with the agreement	5
Internal control	Trading performance (*)	4	The trading results provided by ESPO, both for internal use and reported to the Management Committee, are well founded in the general ledger	5
Internal control	Vehicle & Fleet operating costs	39	Revised arrangements are monitored and securing vfm	10
	Contingency	-	Unforeseen events	15
	Client management	-	Planning & research; progress meetings; servicing the Finance & Audit Subcommittee; confirming implementation of high importance internal audit recommendations External Audit liaison; advice	20
Total days (note days allocated are indicative & subject to change)				185

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

Anti-Fraud & Corruption	LW	See Neil	Cancelled
Trading	AR	Draft with Matt	
Supply Chain	AC	Draft response from auditee, needs tweaking by AC then sending to AD (KS) then issue	
Business Strategy	HM	See Neil	yes
Information Management	JR	Draft with Matt	
Applications Management	JR	Draft with Matt	
Rebates Income	DH	Wants to see Matt before completing draft	
Fleet Management	AR	Needs a read of draft then issue	
E-Tendering	LW	Needs a file vet on MK	
Procurement & Compliance risk management	JM	Ask NJ	
Annual Governance Statement	HM	Ask NJ	
Servicing Authority	DH	Only at ToE stage	

design of model security
 computation of model & validation

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