



Date: 26 May 2016  
My Ref: BH/ESPO  
Please ask for: Ben Holihead  
Direct Dialling: (0116) 305 6339  
e-mail: ben.holihead@leics.gov.uk

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 Monday, 6 June 2016 at 11.00 am in the Gartree Committee 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 Chairman for the municipal year ending May 2017.	
2.	Minutes of the meeting held on 22 February 2016.	(Pages 3 - 6)
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. Annual Governance Statement 2015/16. (Pages 7 - 22)  
Report of the Consortium Treasurer.
6. Draft Outturn 2015/16. (Pages 23 - 38)  
Report of the Consortium Treasurer.
7. Quarterly Progress Against the Internal Audit Plan. (Pages 39 - 50)  
Report of the Consortium Treasurer.
8. Internal Audit Service Annual Report 2015/16 (Pages 51 - 68)  
Report of the Consortium Treasurer.
9. Annual Internal Audit Plan for 2016/17. (Pages 69 - 74)  
Report of the Consortium Treasurer.
10. Date of next meeting.  
The next meeting of the Subcommittee will take place in early 2017, and will be confirmed nearer to the time.
11. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 22 February 2016.

PRESENT

Mr. G. Hart CC – Leicestershire County Council (in the Chair)

Warwickshire County Council  
Mr. J. Clarke CC

Cambridgeshire County Council  
Mr. R. Hickford CC

Lincolnshire County Council  
Mrs. S. Rawlins CC

31. Election of Chairman.

Having received apologies from the Chairman, Mr. I. Monson CC, it was moved and seconded that Mr. G. Hart CC be elected Chairman for the meeting.

(Mr. G. Hart CC in the Chair)

32. Minutes of the meeting held on 16 November 2015.

The minutes of the meeting held on 16 November 2015 were taken as read, confirmed and signed.

33. 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.

34. Urgent items.

There were no urgent items for consideration.

35. MTFS Monitoring for the first Nine Months of 2015-16.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the results of the first nine months of trading from April to December 2015. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i) The nine months of trading had resulted in certain trends being incorporated into future planning of the medium term financial strategy and business strategy. The key trend had been a decline in education sales which suggested that austerity was beginning to have an impact on the educational supplies market;

- (ii). Gas sales were £2.1m behind budget as a result of lower wholesale prices. However the benefits of lower prices had been passed on to ESPO customers;
- (iii). A number of actions had been taken to reduce sickness absence rates. This had included final written warnings to staff and some dismissals. As the Subcommittee had been previously advised, most of the absences were on the operational side of ESPO such as in the warehouse or delivery drivers. The aim was to reduce sickness absence rates to an overall target of 7.5 per full time equivalent. However as the figures were calculated on a rolling 12 month basis, it would take some time for changes in sickness to be reflected in the reported figures;
- (iv). ESPO was on target to achieve a £3.0 - £3.3 million surplus despite the increased pressures in the market. However it would have to consider future challenges such as the National Living Wage which could have an impact on ESPO's ability to meet future surplus targets;
- (v). Although ESPO was experiencing challenges in the market, overall it was felt that the organisation was performing better than its competitors and would continue to be proactive in responding to these challenges.

RESOLVED:

That the contents of the report be noted.

36. Internal Audit Service - Progress against the 2015-16 Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the Internal Audit Plan during the previous quarter. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

The Internal Audit Service was on track to deliver all audits within the 185 day timeframe. Some audits had been delayed due to the need for further information and data on the audit area. If officers felt that they would struggle to meet the 185 day deadline, an extension to the timescale would be requested.

The warehouse audit had been cancelled due to ESPO no longer requiring the need for a seasonal relief warehouse.

RESOLVED:

That the contents of the report be noted.

37. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Subcommittee would be held on 6 June 2016 at 11.00am.

38. 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 and Draft Medium Term Financial Strategy 2016/17 - 2019/20' 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.'

39. Forecast Outturn and Draft Medium Term Financial Strategy 2016/17 - 2019/20.

The Subcommittee considered a report outlining the draft proposals for the Medium Term Financial Strategy covering 2016/17 - 2019/20 and the draft budgets covering that period. A copy of the exempt report, marked 'Agenda Item 8', is filed with these minutes.

The exempt report was not for publication as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information).

RESOLVED:

- a) That the draft four year medium term financial strategy, be noted;
- b) That the forecast outturn and draft budgets for 2016/17 - 2019/20, be noted;
- c) That the forecast outturn and draft Medium Term Financial Strategy be recommended for approval at the Management Committee on 2 March 2016.

11.00 am - 12.10 pm  
22 February 2016

CHAIRMAN

This page is intentionally left blank



**ESPO FINANCE AND AUDIT SUB COMMITTEE – 6 JUNE 2016**

**DRAFT ANNUAL GOVERNANCE STATEMENT**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. To present to members the draft Annual Governance Statement for 2015-16. This has to be formally approved at the September 2016 Management Committee meeting.

**Background**

2. ESPO has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

**Outcomes of Process for Preparing Annual Governance Statement**

3. The AGS is structured around the six core principles of good governance as follows:

PRINCIPLE A: Focusing on the purpose of the organisation and on outcomes for our stakeholders and implementing a vision for the future.

PRINCIPLE B: Members and officers working together to achieve a common purpose with clearly defined functions and roles

PRINCIPLE C: Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour

PRINCIPLE D: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

PRINCIPLE E: Developing the capacity and capability of members and officers to be effective

PRINCIPLE F: Engaging with stakeholders to ensure robust accountability

4. For each of the six core principles we have identified:

Governance Mechanisms

Assurances Received  
Weaknesses identified

5. To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, each leadership team member was required to complete a 'Governance Self Assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where department's have identified specific 'areas of improvement', these are incorporated into a departmental action plan to discuss and prioritise implementation during the course of the next financial year.
6. A review of the effectiveness of the governance framework including the system of internal control has been carried out by the Head of Internal Audit Service. His findings are included in the report.

#### **Resources Implications**

7. None

#### **Recommendation**

8. Members are asked to note the draft Annual Governance Statement for 2015-16

#### **Equal Opportunities Implications**

9. None

#### **Officer to Contact**

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

#### **Appendices**

Draft Annual Governance Statement 2015-16





## Annual Governance Statement 2015/16

### 1. SCOPE OF RESPONSIBILITY

ESPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. ESPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

ESPO has approved and adopted a code of corporate governance as best practice, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website and this statement explains how ESPO has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the Organisation is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ESPO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at ESPO for the year ended 31 March 2016 and up to the date of approval of the annual report and statement of accounts. ESPO's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework, within each principle we have identified the sources of assurance.

**PRINCIPLE A: Focusing on the purpose of ESPO, on outcomes for our stakeholders and creating and implementing a vision for the organisation.**

**Under this principle, there is a requirement to:**

- Exercise strategic stewardship by developing and clearly communicating the organisation’s purpose and vision and its intended outcome for stakeholders.
- Ensure that all stakeholders receive a high quality of a service.
- Ensure the organisation makes best use of resources and that all stakeholders receive excellent value for money.

<b>Description of Governance Mechanisms:</b>  <i>Evidence and documents that demonstrate compliance / good practice</i>	<b>Assurances received</b>	<b>Weaknesses identified:</b> <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Business Strategy and supporting projects (delivery and strategic)</li> <li>• Service/Business Plans supported by relevant strategies</li> <li>• Communication Strategy</li> <li>• Performance trends and reports on the progress of service delivery</li> <li>• Formal complaints policy and procedures that inform positive service improvement</li> <li>• Benchmarking is undertaken with competitors pricing</li> <li>• Service Level Agreement in place with the Servicing Authority</li> </ul>	<ul style="list-style-type: none"> <li>• A strategy which sets out how efficiencies included within the MTFs will be achieved.</li> <li>• Outcomes are delivered through Assistant Director’s plans and strategies which set out objectives and targets in relation to ESPO’s priority outcomes.</li> <li>• Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders.</li> <li>• Performance trends reported through balanced scorecard. Also trends identified in monthly and weekly financial reports.</li> <li>• Annual Report considered by members – supported by approved Medium Term Financial Strategy and Annual Statement of Accounts.</li> <li>• Industry benchmarking measures undertaken in some departments to determine value for money. For example, competitors’ Annual reports are reviewed.</li> <li>• Regular Performance Development Reviews are undertaken throughout the organisation on a regular basis and are aligned to the ESPO strategy.</li> <li>• Regular briefings and communications are in place so that all staff are kept informed of key operational, department and corporate through the weekly staff update, Directors briefings, team meetings and the Employee Engagement group.</li> </ul>	

**PRINCIPLE B: Members and officers working together to achieve a common purpose with clearly defined functions and roles**

**Under this principle, there is a requirement of ESPO to:**

- Ensure effective stewardship throughout the organisation and be clear about member and officer functions and of the roles and responsibilities of the scrutiny function;
- Ensure a constructive working relationship exists between organisation members and officers and that the responsibilities of members and officers are carried out to a high standard;
- Ensure relationships between the organisation, its partners and the public are clear so that each knows what to expect of the other.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Job descriptions for: Director, Consortium Secretary, Consortium Treasurer Head of Internal Audit Service, AD Finance.</li> <li>• Member/Officer Protocol</li> <li>• Constitution is regularly reviewed.</li> <li>• Scheme of delegation, standing orders and financial regulations</li> <li>• Effective Director and Chairman pairing</li> <li>• Compliance with Role of Chief Financial Officer and Role of Head of Internal Audit</li> <li>• Conditions of employment including; appraisal arrangements; pay and conditions policies; structured pay scales</li> <li>• Effective performance management system including progress on Key Performance Indicators and identifying areas of improvement</li> <li>• Business and financial planning process</li> </ul>	<ul style="list-style-type: none"> <li>• Constitution sets out ESPO’s political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place.</li> <li>• Constitution sets out ‘Responsibility for Functions’ including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules, which have been further updated to reflect current delegations and procedures at ESPO.</li> <li>• Regular meetings take place with the Chairman, the Director and the servicing authority.</li> <li>• Assessment of compliance with the Statement on the Role of the CFO and Role of the Head of Internal Audit.</li> <li>• Monitoring Officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed.</li> <li>• Employment Committee at LCC manage and govern all pay matters and are responsible for terms and conditions of service, including remuneration. Pay Policy Statement ensures that ESPO manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way.</li> <li>• Established Finance function maintains sound financial frameworks and supports delivery of MTFS.</li> <li>• Management Committee maintain oversight of management and stewardship of ESPO and the minutes of these meetings are available.</li> <li>• The service level agreement is available for review.</li> </ul>	<p>.</p>

**PRINCIPLE C: Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

**Under this principle, there is a requirement of ESPO to:**

- Ensure organisation members and officers exercise Chairmanship by behaving in ways that exemplify high standards of conduct and effective governance;
- Ensure that organisational values are put into practice and are effective.

<b>Description of Governance Mechanisms –</b>  <i>Evidence and documents that demonstrate compliance / good practice</i>	<b>Assurances received</b>	<b>Weaknesses identified:</b> <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Annual Governance Statement</li> <li>• Member and Officers Codes of Conduct</li> <li>• Performance appraisal</li> <li>• Procedures for responding to behaviour complaints</li> <li>• Anti –fraud and anti-corruption policies</li> <li>• Standing orders and financial regulations</li> <li>• Register of Interests and Gifts and Hospitality – members and staff</li> <li>• Ethical awareness training and dealing with conflicts of interest</li> <li>• Communicating shared values with members, staff, the community and partners</li> <li>• Whistleblowing arrangements</li> <li>• Decision making practices/framework</li> <li>• Protocols for partnership working</li> <li>• Code of Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>• AGS produced by compiling and scrutinising information from Departmental Self Assessments and assurance from Internal Audit Service.</li> <li>• Members of individual authorities are subject to their own Code of Conduct</li> <li>• Adopted LCC Employee Code of Conduct. ‘Dignity At Work’ Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies</li> <li>• Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported.</li> <li>• Adopted LCC Anti-Fraud &amp; Corruption Policy, Strategy and Procedures.</li> <li>• Constitution sets out and Financial Rules and Regulations.</li> <li>• Organisational Values considered during the PDR, complimented by departmental notices displaying visions and achievements. Whistleblowing policy in place and on the intranet.</li> <li>• Scheme of budget delegation in place.</li> <li>• Registers for Interest and Gifts and Hospitality maintained by the Directorate office.</li> <li>• Various training rolled out through e-learning or through workshops including customer services, health and safety, management skills and policy refreshers.</li> </ul>	

12

**PRINCIPLE D: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

**Under this principle, there is a requirement of ESPO to:**

- Be rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny;
- Have good-quality information, advice and support to ensure that services are delivered effectively and are what the stakeholder wants / needs;
- Ensure that an effective risk management system is in place;

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Finance and Audit Subcommittee</li> <li>• Internal Audit function</li> <li>• Decision making protocols / records of decisions and supporting materials</li> <li>• Members’ and officers’ code of conduct</li> <li>• Terms of reference and membership</li> <li>• Training for committee members including information needs to support decision making</li> <li>• Calendar of dates for submitting, publishing and distributing timely reports</li> <li>• Approved Risk Strategy/Policy</li> <li>• Effective counter fraud arrangements</li> <li>• Legal advice provided by officers</li> </ul>	<ul style="list-style-type: none"> <li>• Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports.</li> <li>• Internal Audit Service annual plan of audits provide assurance that the governance, risk management and internal control systems of ESPO are operating effectively.</li> <li>• Terms of References for Committees and decision making protocols are detailed in the Constitution – records of decisions, with supporting materials are available through Democratic Services.</li> <li>• ESPO’s risk management framework recently aligned with local government best practice – providing assurance to senior management, Members and public that ESPO is mitigating the risks of not achieving key priorities. This is further audited through the internal audit programme of work.</li> <li>• Members of the Management Committee actively engage and take interest in risk management, including detailed scrutiny of the Corporate Risk Register. This is reported quarterly.</li> <li>• Monitoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate.</li> <li>• External audit assurance</li> <li>• Chief Officer Group assurance</li> <li>• Alignment of key decision making to the key protocols and delegated powers set out in the ESPO constitution.</li> <li>• Receiving professional advice and support as and when required to ensure that services are delivered effectively.</li> </ul>	<p>Business Continuity Improvement in communication to members of staff. Implementation of training and scenario rehearsals.</p>

13

**PRINCIPLE E: Developing the capacity and capability of members and officers to be effective**

**Under this principle, there is a requirement of ESPO to:**

- Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles;
- Develop the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.
- Encourage new talent for membership of the organisation so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

<b>Description of Governance Mechanisms –</b>  <i>Evidence and documents that demonstrate compliance / good practice</i>	<b>Assurances received</b>	<b>Weaknesses identified:</b> <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Induction programme</li> <li>• Officer training and development plans</li> <li>• Availability and communication of L&amp;D activities</li> <li>• Performance reviews of officers</li> <li>• Workforce Planning</li> <li>• Member training and development</li> </ul>	<ul style="list-style-type: none"> <li>• Induction available to all staff.</li> <li>• Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework</li> <li>• Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans.</li> <li>• Member meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers.</li> <li>• Introductory briefings carried out for new members, with refresher insight days offered at regular intervals (normally coinciding with the on-site Management Committee meeting).</li> </ul>	

**PRINCIPLE F: Engaging with stakeholders to ensure robust public accountability**

**Under this principle, there is a requirement of ESPO to:**

- Exercise Chairmanship through a robust scrutiny function which effectively engages all local institutional stakeholders, including partnerships, and develops constructive accountability relationships;
- Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service;
- Make best use of human resources by taking an active and planned approach to meet responsibility to staff.

<b>Description of Governance Mechanisms –</b>  <i>Evidence and documents that demonstrate compliance / good practice</i>	<b>Assurances received</b>	<b>Weaknesses identified:</b> <i>Areas for improvement</i>
<ul style="list-style-type: none"> <li>• Database of stakeholders</li> <li>• Annual report</li> <li>• Communication Strategy</li> <li>• Annual financial statements</li> <li>• Freedom of Information Act publication scheme</li> <li>• ESPO Website</li> <li>• Best practice standards in recruitment and staff terms and conditions</li> <li>• Clear policies on consulting and involving staff in decision making. Full Public Meetings protocol observed as advised by LCC Democratic Services (observing requirements of public reporting, and private session routines for commercially sensitive subject matter)</li> </ul>	<ul style="list-style-type: none"> <li>• Full public annual report providing information on outcomes and achievements.</li> <li>• ESPO recognise the importance to consult, involve and listen to stakeholders so that the organisation can be improved and future plans made.</li> <li>• The Statement of Accounts are published every year. The accounts have been produced in line with the various regulations.</li> <li>• Freedom of Information (FOI) and Environmental Information Regulations Policy underpin the key principles of the Information Management Strategy in that ESPO embraces a culture that is open, accessible and accountable, aiming to publish as much information as possible. FOI practices are in place to enable ESPO to meet obligations and aid understanding of public interests.</li> <li>• ESPO website is frequently used as a medium to inform and engage with the stakeholders and updates on the homepage direct users to key information.</li> <li>• Recruitment undertaken in accordance with policy and procedures.</li> </ul>	<p>.</p>

### 3. REVIEW OF EFFECTIVENESS

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within ESPO who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The CIPFA/SOLACE Governance Framework details the key sources of typical systems and processes that an organisation can adopt to ensure it has an effective system of internal control. Using this guidance ESPO can provide assurance that it has effective governance arrangements, which have been established through the following:

#### **Code of Corporate Governance**

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken.

#### **Internal Audit Service**

##### Background

During the financial year 2015-16, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

The Internal Audit Service (IAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at ESPO was approved by Management Committee in February 2015. The Head of Internal Audit Service (HoIAS) conducted a further self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAA. There were, a few specific areas identified where action is needed however these are not significant deviations to the PSIAS, Whilst there has been movement towards full conformance for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the continuing improvements in risk management at ESPO, the plan is primarily based on the contents of Corporate Risk Register, Major Risk Records, the four year Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk management and control framework (i.e. the control *environment*).



The HoIAS presents an annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; performance against the plan, a statement on conformance with the PSIAS and any matters to be raised in the AGS.

For 2015-16, based on audit work undertaken, overall, positive opinions were given in all three components of the control environment (governance, risk management and control)

#### 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 & Governance), 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.

HoIAS 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 HoIAS 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 HoIAS 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.

### **Risk management arrangements**

#### *Governance of Risk*

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The refresh of the framework aims to ensure that links to Departmental Risk Registers are strengthened, thereby ultimately improving the flow of risk information throughout the Organisation. This revision also included a refresh of the Corporate Risk Register and Risk Management Policy and Strategy – these along with supporting documentation, form an integrated framework that supports ESPO in the effective management of risk.

Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

### **External Audit**

ESPO's external auditors PricewaterhouseCoopers (PWC) gave detailed findings from their planned audit work of ESPO, to those charged with governance through:

#### *Report to those charged with Governance*

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion.

*Audit opinion for the 2014/15 Statement of Accounts, incorporating value for money conclusion*

The audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2014/15, ESPO's statement of accounts presented a true and fair view, in accordance with the relevant codes and regulation.

ESPO's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Organisation which contribute to the production of the Annual Statement of Accounts and positive opinion presented by our external auditors.

ESPO is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, external auditors are satisfied that, in all significant respects, ESPO put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

### **Organisational Governance and Performance Framework**

The Leadership Team and Management Committee receive a monthly Balanced Scorecard, which includes information relating to:

- Financial Information;
- Information issues;
- Procurement;
- Employee related information;

### **Annual Governance Assurance Statements**

The annual review of effectiveness requires the sources of assurance, which ESPO relies on, to be brought together and reviewed from both a department and corporate view.

To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, senior managers were required to complete a 'Governance Self- Assessment', which provided details of the measures in place within their area to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where specific 'areas of improvement' were identified, these have been incorporated into an action plan for management to discuss and prioritise during the course of the next financial year.

In order to assist the HoIAS' opinion on the adequacy and effectiveness of ESPO's control environment, sample checking of the returns and supporting evidence was conducted. This included:

- Discussion on how the self-assessment was conducted, co-ordinated, discussed and signed;
- Follow up with the Director and two Assistant Directors to confirm their involvement;
- Selecting areas across the range of the six core principles to test if there was sufficient evidence to support the response;

Additionally, a Member was interviewed to confirm that processes in place to inform and update them on key risks and issues relating to ESPO were satisfactory, and a sample of ESPO staff were interviewed to evaluate to what extent they were aware of managements' assertions that staff are kept well informed.

### **The Role of the Chief Financial Officer (CFO) at ESPO this is the Consortium Treasurer**

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

The CFO (Consortium Treasurer) is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFs and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management at ESPO.

### **The Role of the Head of Internal Audit**

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010) sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's internal audit arrangements conform to the governance requirements of the *CIPFA Statement*. The HoIAS works with the Consortium Treasurer and Secretary, the Director of ESPO and other members of the Leadership Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Subcommittee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Organisation.

### **The Role of the Consortium Secretary**

The Consortium Secretary has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful.
- ensuring that decisions taken are in accordance with ESPO's budget and it's Policy Framework
- providing advice on the scope of powers and authority to take decisions

Where in the opinion of the Consortium Secretary any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Management Committee accordingly, In discharging this role the Consortium Secretary is supported by officers within the County Council's Legal and Democratic Services Teams

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the above, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

#### 4. GOVERNANCE ISSUES

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2015/16 were sound.

*Progress on issues previously identified:*

The table below describes the governance issues identified during 2014/15 and the progress made against this during 2015/16. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2016/17	Lead Officer
<u>Business Continuity</u> Up to date Business Continuity plans need to be implemented	Completed	Ongoing Training	Director
<u>Succession Plans</u> Succession planning for key posts needs to be implemented.	Completed	No	Director
<u>Stakeholders</u> A review of stakeholders that need to be engaged with needs to be created.	Completed	No	Director
<u>Forward Planning</u> Forward plan of consultation and engagement with stakeholders needs to be created.	Completed	No	Director
<u>Internal Audit Function</u> Implement actions to ensure the internal audit function adequately conforms to the Public Sector Internal Audit Standards	Completed	No	Head of Internal Audit Service

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2015/16 are sound, the assurance gathering process identified key corporate areas of improvement. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2015/16 to carry forward for monitoring within 2016/17.

Key Improvement Area	Lead Officer	Deadline
<u>Business Continuity</u> Improvement in communication to members of staff. Implementation of training and scenario rehearsals.	Director	March 2017

## 5. FUTURE CHALLENGES

ESPO continues to face significant challenges in these times of austerity. All such significant risks are detailed within the Corporate Risk Register, which is regularly reviewed by the Leadership Team and presented to the Management Committee. Managing these risks adequately will be an integral part of both the strategic and operational planning for ESPO

## 6. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 4. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that ESPO has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

John Doherty  
Director

Councillor I Monson  
Chairman, ESPO Management Committee

By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank





## ESPO FINANCE AND AUDIT SUBCOMMITTEE – 6 JUNE 2016

### INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2015-16 INTERNAL AUDIT PLAN

#### REPORT OF THE CONSORTIUM TREASURER

##### Purpose of the Report

1. To provide 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 actions required.

##### Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. In accordance with ESPO's Financial Regulations Rule 15, specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference the Finance and Audit Subcommittee (the Subcommittee) should receive and review audit and governance 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.
3. 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

4. Audits completed (to at least the stage of draft report issued) between 6 February and 20 May are shown in **Appendix 1**. Where audits undertaken are an 'assurance' type i.e. the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e. the level of assurance that material risks are being managed. The sum of individual engagement opinions assists the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy of ESPO's control environment, comprised of its governance, risk management and internal control framework.

5. There are four levels of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get an opinion above partial assurance. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.
6. There were no audits with HI recommendations or partial assurance opinions in this period.
7. A summary of audits completed is: -
  - a. Finalised during the period - 5 (incl. 2 that moved from draft to final)
  - b. Issued as draft - 7
8. **Appendix 2** summarises at 20 May 2016, the progress against all 2015-16 audits and shows completed audits; those in progress and those not yet started. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress. Some audits are split into phases 'a' (assessment of control design) and 'b' (compliance that controls are being applied).
9. 2 audits remained in progress at 20 May 2016 but are close to being reported in draft.
10. 3 audits were postponed or cancelled and reasons are recorded in the appendix.

### **Recommendation**

11. That the contents of the report be noted.

### **Equal Opportunities Implications**

12. 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  
<http://ow.ly/Rlh1Q>

Report to ESPO Finance and Audit Subcommittee 9 June 2015 – Annual Internal Audit Plan  
<http://ow.ly/RlhBs>

**Officer to Contact**

Neil Jones, Head of Internal Audit Service

Tel: 0116 305 7629

Email: [neil.jones@leics.gov.uk](mailto:neil.jones@leics.gov.uk)

**Appendices**

Appendix 1 – Audits completed (to at least draft report issued) as at 20 May 2016

Appendix 2 – Summary progress against 2015-16 audits as at 20 May 2016

This page is intentionally left blank

<b>Audit Name</b>	<b>Final Report Issued (or position @ 20/5/16)</b>	<b>Audit Opinion</b>	<b>HI Rec</b>
Servicing Authority	Final 1/3/16	Substantial Assurance	No
Public Contract Regulations - framework	Final 6/4/16	Substantial Assurance	No
Trading performance	Final 27/4/16	Full Assurance	No
Business Strategy/Transformation - governance	Final 5/5/16	Substantial Assurance	No
Business Strategy/Transformation - projects	Final 17/5/16	Substantial Assurance	No
Distribute Surplus - design model	Draft issued 14/4/16	Substantial Assurance	No
General Ledger Reconciliations	Draft issued 21/4/16	Substantial Assurance	No
BACS	Draft issued 12/5/16	Substantial Assurance	No
Information Management	Draft issued 12/5/16	Substantial Assurance	No
Customer Satisfaction	Draft issued 17/5/16	Substantial Assurance	No
IT General Controls	Draft issued 17/5/16	Substantial Assurance	No
Governance Framework	Draft issued 20/5/16	Substantial Assurance	No

This page is intentionally left blank

**Summary progress against 2015-16 audits as at 20<sup>th</sup> May 2016****Audits 'completed'**

<b><u>Ref<sup>1</sup></u></b>	<b><u>Type<sup>2</sup></u></b>	<b><u>Audit title</u></b>	<b><u>Assurance objective</u></b>	<b><u>Position @ 20<sup>th</sup> May 2016</u></b>
16/1a	GO	Annual governance statement 2014/15	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Completed
16/1b	GO	Annual governance statement 2015-16	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Guidance given to Technical Accountant who is taking on the compilation role. Audit work on the approach scheduled for quarter 1 2016-17.
16/2	GO	Business Strategy/Transformation - governance	Attainment of the objectives of the Strategy is well governed - follow up work commissioned from Transformation Unit	Completed – substantial assurance
16/4	GO	Governance framework	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	Draft issued – substantial assurance
16/5	GO	Information management	The Payment Card Industry requirements are complied with	Draft issued – substantial assurance.
16/8	GO	Transparency	Comparison against other purchasing organisations' transparency on websites.	Draft findings sent to Director and Consortium Treasurer and Secretary in order to reach agreement on any development required

16/7a	RM	Risk management	Recommendations from 2014-15 are implemented	Completed – substantial assurance
16/7b	RM	Risk management	Limited testing on ESPO's 2015-16 risk processes	Completed – substantial assurance
16/9	RM	Business Strategy/Transformation – individual projects	Control design (of specific project(s)) is adequate to mitigate risk	Completed – substantial assurance
16/10	RM	Customer satisfaction	The risks of customer loss are identified and mitigated	Draft issued – substantial assurance.
16/11	RM	Counter Fraud - NFI specific	Interpretation and investigation of outputs	Completed. No fraudulent matches found. Recommendation to improve data quality for future exercises and to decide if there is appetite to review any potential matches that were below NFI's recommended investigation limit threshold
16/12	RM	Counter Fraud	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity	Proactive guidance issued e.g. managing the risk of procurement fraud and fraud alerts, also tools shared (e:learning on fraud). Some time was also used to investigate anomalies in the NFI duplicate payment report due to the data quality issue detailed immediately above
16/13a	RM	ICT applications - Optima Energy Software	To confirm prior year High Importance (HI) recommendations have been progressed	Completed – progressed.  The ICT Auditor will continue to monitor the implementation through to business as usual
16/13b	RM	ICT applications – Aurora upgrade	The Aurora upgrade due in 2016 is adequately planned	Completed for 2015-16. Project documentation reviewed in order to evaluate timing of audit involvement in 2016-17.



16/14a	RM	Procurement & Compliance Risk Management – framework	The framework is sufficiently robust to prove effectiveness and avoid liability.	Completed – substantial assurance
16/16	IC	BACS	Access is controlled and transactions are validated	Draft issued – substantial assurance
16/17	IC	Distribute Surplus - Design	The design and security of the revised financial model is robust	Draft issued – substantial assurance
16/18	IC	General ledger reconciliations <sup>3</sup>	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock	Completed – substantial assurance
16/19	IC	IT general controls <sup>3</sup>	Controls expected by the External Auditor are well designed and consistently applied.	Draft issued – substantial assurance
16/20	IC	Servicing authority	The servicing authority is providing service in line with the agreement	Completed – substantial assurance
16/21	IC	Trading performance <sup>3</sup>	The trading results provided by ESPO, both for internal use and reported to the Management Committee, are in the general ledger	Completed – full assurance

**Audits in progress**

<b><u>Ref</u></b>	<b><u>Type</u></b>	<b><u>Audit title</u></b>	<b><u>Assurance objective</u></b>	<b><u>Position @ 20<sup>th</sup> May 2016</u></b>
16/6	GO	Management Information - Profitability of Framework Agreements	Strategic & operational decision making (e.g. to develop or end frameworks) is based on good quality information	Testing stage
16/20	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	Testing stage

### Audits not started

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 20<sup>th</sup> May 2016</u>
16/3	GO	Control environment	The obligations of the revised Accounts and Audit Regulations (April 2015) to have a sound system of internal control are met	Postponed due to more time needed on other audits
16/15	IC	Warehousing	The temporary warehouse arrangements are adequately managed to attain vfm, avoid stock losses and avoid liability	Cancelled – decision taken to manage ‘peak’ demand in-house.
16/22	IC	Vehicle & Fleet operating costs	Revised arrangements are monitored and securing vfm	Postponed - the new fleet & associated telematics reporting only went live in February

<sup>1</sup>unique reference numbers based on the financial year in question (i.e. ‘16’ relates to 2015-16), in the sequence of the approved internal audit plan

<sup>2</sup>the three elements of the control environment (governance, risk management and internal control)

<sup>3</sup>traditionally audits where the external auditor has placed reliance on the work of internal audit.

This page is intentionally left blank



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 6 JUNE 2016**

**AGENDA ITEM NO.**

**INTERNAL AUDIT SERVICE – ANNUAL REPORT 2015-16**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. To provide the Subcommittee with an annual report on internal audit work conducted during 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 those affairs. 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.
3. Part 2, 'Internal Control' of the revised Accounts and Audit Regulations (2015) provide at section 5 'Internal Audit' that, 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
4. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) and the guidance is provided by the accompanying CIPFA Local Government Advisory Note (LGAN).
5. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the annual governance statement which will be presented to this Subcommittee before the meeting of the Management Committee on 21 July 2016. The Internal Audit Charter for ESPO defines the Management Committee as the Board and recognises that it should formally approve the HoIAS' annual report.

6. 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

### **Internal Audit Service Annual Report 2015-16**

7. The annual report for 2015-16 is provided in the Appendix.
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 (Annex 1)
  - b. The majority of audits conducted returned substantial assurance ratings (Annex 2)
  - c. Just over 85% of planned work was achieved with only a small carry over and three cancellations
  - d. LCCIAS abides by the principles of the PSIAS.

### **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. 10 additional days were provided over the planned 185. The total charge to ESPO was £54,600.

### **Recommendation**

11. That the Subcommittee notes the Internal Audit Service annual report for 2015-16

### **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) 2015  
The Public Sector Internal Audit Standards (2013)

**Officer to Contact**

Neil Jones	Telephone	0116 305 7629
Head of Internal Audit Service	Email	<a href="mailto:Neil.Jones@leics.gov.uk">Neil.Jones@leics.gov.uk</a>

**Appendices**

Appendix	Internal Audit Service Annual Report 2015-16
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 2015 to May 2016 from which the overall opinion is derived

This page is intentionally left blank



# ESPO

## Leicestershire County Council Internal Audit Service Annual Report 2015-16



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

**22<sup>nd</sup> May 2016**

**LEICESTERSHIRE COUNTY COUNCIL**  
**INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2015-16**

**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 reached:-

### Governance

Nothing of 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

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 two 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. The majority 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, one returned 'full assurance' rating (with no recommendations). The others each 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 trading accounts, general ledger reconciliations and ICT general controls are utilised by the External Auditor. All recommendations were accepted.
12. It was confirmed that the "high importance" recommendations relating to the project management arrangements for the replacement for the GEMS energy system were implemented.
13. Six audits returning 'no opinion' are 'consulting' type audits. 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 2015-16, the outputs from ESPO voluntarily submitting its payroll and creditors data into the 'National Fraud Initiative' (a nationwide counter-fraud data-matching exercise) were examined. No issues arose.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.
16. There were no known impairments or restrictions to internal audit's 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 2015-16 internal audit plan**

	<u>Audits</u>	<u>Complete @ 20/5</u>	<u>Incomplete @ 20/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 14-15	11	11	-	15	34	+19
Follow up HI recs	1	1	-	2	4	+2
Planned	23	18	2	148	132	-16
Planned not started	-	-	3			
Unplanned	-	-	-	-	-	-
Client management	-	-	-	20	25	+5
<b>Total</b>	<b>35</b>	<b>30</b>	<b>5</b>	<b>185</b>	<b>195</b>	<b>+10</b>

18. Two planned audits were incomplete at 20<sup>th</sup> May, management information and rebates income. Some resource has already been utilised in 2016-17 completing these audits.
19. Three planned audits were not started: -
- Control environment - Postponed due to more time needed on other audits
  - Warehousing - Cancelled due to a strategic decision taken to manage 'peak' demand in-house.
  - Vehicle & fleet operating costs - Postponed because the new fleet & associated telematics reporting only went live in February
20. There were no unplanned audits.
21. The internal audit case management system still brings problems with data quality so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This remains a key improvement area for 2016-17. Nevertheless, the HoIAS 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)**

22. The HoIAS undertook a further 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. A detailed list of actions required has been discussed with the CFO.
23. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Yes = fully conforms
  - Yes/Partly = mostly conforms but scope for continuous improvement
  - Partly/No = only some conformance with a real need for improvement
  - No = doesn't conform at all

**Table 2 : Summary self-assessment against conformance to PSIAS**

<b>Does LCCIAS conform to PSIAS</b>	<b>Y</b>	<b>Y/P</b>	<b>P/N</b>	<b>N</b>
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		

24. An improvement during 2015-16 has been the implementation of a Quality Assurance and Improvement Programme (QAIP) which sets out the governance arrangements for LCCIAS; explains roles and responsibilities of management and staff; defines expectations and outlines quality measures. Work to embed and review progress against the QAIP remains a priority.

25. PSIAS Standard 1321, informs that the HoIAS may only state that the internal audit activity fully 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. Whilst there has been further movement towards full conformance, for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.
26. PSIAS Standard 1322, requires the HoIAS to confirm that (based on the results of the self-assessment) there were not any significant deviations from the PSIAS.

**Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)**

27. A 'governance group' comprising the Director and Assistant Director (Finance) of ESPO; the Consortium Treasurer and Secretary and the HoIAS reviewed the draft AGS and agreed there were not any issues relevant to its preparation.

Neil Jones CPFA  
Head of Internal Audit Service  
LCCIAS

22<sup>nd</sup> May 2016.

This page is intentionally left blank





**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of ESPO's control environment  
2015-16**



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

**22<sup>nd</sup> May 2016**

## Background

During the financial year 2015-16, 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. 2015-16 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 Annual Governance Statement; Business Strategy/Transformation; Information management; Transparency; Governance framework and Management information. 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.

The HoIAS has regular discussions with the ESPO Director and the Leadership Team, the Consortium Treasurer, and where required the Consortium Secretary, on governance issues and related aspects of audits.

HoIAS opinion: - Nothing of significance, adverse nature or character has come to the attention of the HoIAS. 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.

A follow up audit of the project management arrangements for the replacement of the GEMS energy management system confirmed that the two high importance recommendations had been implemented.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management.

Other audits conducted that linked to risk management were Business Strategy/Transformation; Customer satisfaction; Counter fraud; ICT update to 'Aurora' and Procurement & Compliance Risk Management.

The HoIAS informs the External Auditor on ESPO's management of fraud risk.

HoIAS opinion: 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; BACS; General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards compliance to industry standards; IT General Controls - External Auditor Reliance. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. There were no employee or creditors data matches suggesting fraudulent activity

HoIAS 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 22<sup>nd</sup> May 2016  
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'.

**Summary of Internal Audit Work Undertaken 2015-16**

<b>Type</b>	<b>Audit Name</b>	<b>Final Report Issued (or position @ 20/5/16)</b>	<b>Audit Opinion</b>	<b>HI Rec</b>
GO	Business Strategy/Transformation - governance	Final 5/5/16	Substantial Assurance	No
GO	Information Management	Draft issued 12/5/16	Substantial Assurance	No
GO	Governance Framework	Draft issued 20/5/16	Substantial Assurance	No
GO	Annual Governance Statement 14/15	Completed	No opinion	No
GO	Annual Governance Statement 15/16	12/01/16	No opinion	No
GO	Transparency	Findings issued	No opinion	No
RM	Risk Management 15/16	Final 2/2/16	Substantial Assurance	No
RM	Public Contract Regulations - framework	Final 6/4/16	Substantial Assurance	No
RM	Business Strategy/Transformation - projects	Final 17/5/16	Substantial Assurance	No
RM	Customer Satisfaction	Draft issued 17/5/16	Substantial Assurance	No
RM	Counter Fraud - NFI specific	Complete	No opinion	No
RM	Counter Fraud	Complete	No opinion	No
RM	ICT applications – Aurora upgrade	Stage 1 complete	No opinion	No
IC	Trading performance	Final 27/4/16	Full Assurance	No
IC	Servicing Authority	Final 1/3/16	Substantial Assurance	No
IC	Distribute Surplus - design model	Draft issued 14/4/16	Substantial Assurance	No
IC	General Ledger Reconciliations	Draft issued 21/4/16	Substantial Assurance	No
IC	BACS	Draft issued 12/5/16	Substantial Assurance	No
IC	IT General Controls	Draft issued 17/5/16	Substantial Assurance	No

This page is intentionally left blank



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 6 JUNE 2016**

**AGENDA ITEM NO.**

**ANNUAL INTERNAL AUDIT PLAN 2016-17**

**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 2016-17.

**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 Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of ESPO's control environment (the framework of governance, risk management and control). The HoIAS' opinion forms part of the Annual Governance Statement which supports ESPO's financial accounts. In order to form an opinion, 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 and the Leadership Team identify and manage risk and where it is required, 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 and the Leadership 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 financial 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).



### **The internal audit plan 2016-17**

9. The attached plan for 2016-17 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment. The overall scope of the plan is comparable to that of one of ESPO's competitors.
10. A small amount of resource will be required to finalise 2015-16 audits.
11. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap) and the third column is an attempt to match to ESPO's current Key Risk Register (again there is some overlap)
12. The 2016-17 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in ESPO's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree any material changes with the Director and Consortium Treasurer and these would be reported to the Subcommittee.
13. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners (Assistant Director) in advance of each audit.

### **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, findings will be discussed with the appropriate risk owner before issuing a report to the Director and the Treasurer. The opinions reached, along with summary findings are reported each quarter to the Director and the Treasurer and will be reported more formally to the Subcommittee at its spring and early summer meetings.
16. If any audit produces a 'high importance' recommendation, then the full report would be 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. In order to meet a small rise in charges, it has been necessary to reduce coverage by 10 days to 175. This coverage should enable the HoIAS to provide reasonable assurance to the Consortium Treasurer that risks ESPO is facing are being managed.

### **Conclusion**

18. The details of the 2016-17 internal audit plan is attached in the Appendix 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 2016-17.

### **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**

Neil Jones, Head of Internal Audit Service  
 Tel: 0116-305-7629  
 Email: neil.jones@leics.gov.uk

### **Appendices**

Appendix - ESPO Internal Audit Plan 2016-17

<b><u>Control env't component</u></b>	<b><u>Entity</u></b>	<b><u>KRR</u></b>	<b><u>The indicative audit objective is to ensure that...</u></b>
Various	Complete 2015-16 audits	Various	
Governance	Annual governance statement	8	Management self assessments of assurance in the 2015-16 AGS were founded and conformance to the revised CIPFA framework is planned and demonstrated
Governance	Business Strategy	2, 6, 25 & 60	There is robust governance over any significant developments and commercial projects arising from the Business Strategy
Risk management	Risk management	8	Review parts of the corporate risk management process
Risk management	Business Continuity	1, 30, 34	BC arrangements have been planned, communicated and are tested
Risk management	Procurement & Compliance risk management	26, 32, 35 & 58	Frameworks are sufficiently robust to prove effectiveness and avoid liability. To include a specific framework contract and adherence to The Public Contracts Regulations 2015
Risk management	Vehicle Operating Licences		There is compliance with VOL requirements to mitigate the risk of revocation of licences
Risk management	Health & Safety	33	Employee health and safety risk is identified and adequately managed
Risk management	Absence management	55	There is integrity in absence data reported and management is abiding by policies and processes
Risk management	Counter Fraud - NFI specific	20	Interpretation and investigation of outputs
Risk management	Counter Fraud	20	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity
Risk management	ICT applications	42 & 43	The Enterprise Resource Planning (ERP) upgrade is adequately planned
Risk management	Electricity framework	36	All supply points are transferred and exposure to 'out of contract' charges is mitigated.
Internal control	Energy billing	38	Billing (including consolidated accounts) is timely, complete and accurate
Internal control	Key financial systems (*)	8&20	To discuss with the External Auditor and Assistant Director (Finance). Includes reconciliations; receivables; payables; payroll and stock
Internal control	IT general controls (*)	1	The range of controls expected by the External Auditor are well designed and consistently applied.
Internal control	Rebates income	27, 42 & 45	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated
Internal control	Servicing authority	8	The servicing authority is providing service in line with the agreement
	Contingency	-	Unforeseen events
	Client management	-	Planning & research; progress meetings; servicing the Finance & Audit Subcommittee; confirming implementation of high importance internal audit recommendations External Audit liaison; advice

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

This page is intentionally left blank