



Date:  
My Ref SB/ESPO  
Please ask for: Sara Brennan  
Direct Dialling (0116) 305 7453  
e-mail: sara.brennan@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 Tuesday, 7 February 2017 at 11.00 am in the 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,

Sara Brennan  
for Consortium Secretary

### **AGENDA**

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 6 June 2016.	(Pages 3 - 6)
2.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
3.	Declarations of interest in respect of items on the agenda.	
4.	Internal Audit Service - Progress Against the 2016-17 Internal Audit Plan.	(Pages 7 - 16)



5. The Internal Audit Charter for ESPO. (Pages 17 - 34)

6. Date of next meeting.

The next meeting of the Subcommittee is due to be held on Wednesday 24<sup>th</sup> May 2017 at 11.00am at County Hall, Glenfield.

7. Any other items which the Chairman has decided to take as urgent.

Exclusion of the public.

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

8. MTFs Monitoring for the first nine months of 2016-17. (Pages 35 - 42)

9. Forecast Outturn 2016/17 and Draft Medium Term Financial Strategy 2017/18 - 2020/21. (Pages 43 - 68)



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 6 June 2016.

PRESENT

Mr. J. Clarke CC - Warwickshire County Council  
 Mr. G. A. Hart CC - Leicestershire County Council  
 Mr. R. Hickford CC – Cambridgeshire County Council  
 Mr. I. Monson CC – Norfolk County Council  
 Mrs. S. Rawlins CC - Lincolnshire County Council  
 Mr. D. Seaton CC – Peterborough City Council

1. Election of Chairman for the municipal year ending May 2017.

It was moved and seconded that Dr. K. Feltham CC be elected Chairman for the municipal year ending May 2017.

2. Election of Chairman for the duration of the meeting.

In the absence of the Chairman, Dr. K. Feltham CC, it was moved and seconded that Mr. I. Monson CC be elected Chairman for the duration of the meeting.

MR. I. MONSON CC IN THE CHAIR

3. Change to the order of business.

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

4. To advise of any other items which the Chairman has decided to take as urgent.

The Chairman, having decided it was of an urgent nature, agreed to take an urgent update on a key project taking place at ESPO.

5. 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 urgent item of business entitled 'Key Project Update' 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.'

6. Key Project Update.

The Subcommittee received an update from ESPO officers on a key project which provided an opportunity for financial growth at ESPO.

The update was considered exempt as it contained information relating to the financial or business affairs of a particular person (including the authority holding that information).

The Director reported that the details of the project now reported would be sent by letter to all constituent authorities so that they were fully aware of the proposals, the potential benefits and associated risks. The Subcommittee was advised that delivery of this project would significantly improve the ability of ESPO to deliver the challenging financial targets requested of it by its members.

RESOLVED:

- a) That the update on a key project being undertaken by ESPO be noted;
- b) That the actions required by ESPO to continue with the project be supported by the Subcommittee.

#### THE MEETING WAS RESUMED IN PUBLIC SESSION

#### 7. Minutes of the meeting held on 22 February 2016.

The minutes of the meeting held on 22 February 2016 were taken as read, confirmed and signed.

#### 8. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

#### 9. Annual Governance Statement 2015/16.

The Subcommittee considered a report of the Consortium Treasurer outlining the draft Annual Governance Statement for 2015/16. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

The Subcommittee was advised that since the agenda and report had been sent out, it had been necessary to make amendments to the Annual Governance Statement. A new copy of the Statement was circulated to the members.

IT Governance continued to be an important issue in the Annual Governance Statement, which had been further reaffirmed by the recent cyber-attack on Lincolnshire County Council. ESPO had reminded staff on how to spot fraudulent emails, and the processes to follow if they thought they had opened a suspicious email. To counter-act the growing risk to cyber security in the future, ESPO would be using multi-layers of anti-virus software rather than a single software package.

RESOLVED:

That the contents of the Annual Governance Statement 2015/16 be noted.

#### 10. 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 'Draft Outturn 2015/16' 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.'

11. Draft Outturn 2015/16.

The Subcommittee considered an exempt report of the Consortium Treasurer outlining the draft Outturn for 2015/16. A copy of the report, marked 'Agenda Item 6', 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:

That the draft outturn for 2015/16, and requested allocations from the operating surplus as outlined in the report, be recommended for approval at the next meeting of the Management Committee.

## THE MEETING RESUMED IN PUBLIC SESSION

12. Quarterly Progress Against the Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the quarterly progress against the 2015/16 Internal Audit Plan. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Members were advised that since the publication of the report, a number of the draft reports on completed audits had been issued as final.

## RESOLVED:

That the contents of the report outlining the quarterly progress against the Internal Audit Plan be noted.

13. Internal Audit Service Annual Report 2015/16

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report 2015/16. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). As a result of the audits completed during the 2015/16 financial year, the overall opinion of the Internal Audit Service was that ESPO was operating in a robust,

controlled environment, and as such there were no serious concerns from the Service;

- (ii). The Subcommittee was advised that officers in the Internal Audit Service were constantly learning from the senior leadership team about the structure and market which ESPO operates in to carry out an effective internal audit. To understand the market and the risks, officers felt that ESPO was transparent and open with its risk register. Similarly, ESPO officers found the results of audits extremely valuable, having recently invited the Internal Audit Service to assess the supply chain at ESPO to prevent loss in rebate income;
- (iii). Arising from queries from members, officers reported that the Internal Audit Service included a specialist IT expert to oversee audits related to that area;
- (iv). Staff expenses claims were audited using a random sample of expense claims. It was felt that there was sufficient control over right up to the senior leadership team to prevent fraudulent claims.

RESOLVED:

That the contents of the Internal Audit Service Annual Report 2015/16 be noted.

14. Annual Internal Audit Plan for 2016/17.

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Plan for 2016/17. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

Despite the decision in 2015 to reduce the number of Subcommittee meetings to two per annum, members were assured that quarterly progress monitoring against the Plan would continue.

RESOLVED:

That the contents of the Internal Audit Plan for 2016/17 be noted.

15. Date of next meeting.

RESOLVED:

It was noted that the next meetings of the Subcommittee would take place in early 2017.



## ESPO FINANCE AND AUDIT SUBCOMMITTEE – 7 FEBRUARY 2017

### INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2016-17 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) to 30<sup>th</sup> January 2017 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 - 3
  - b. Issued as draft - 2
8. **Appendix 2** summarises at 30 January 2017, the progress against all 2016-17 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. 10 audits remained in progress at 30 January 2017 of which 5 are close to being reported in draft.
10. 3 audits are not yet started. The Electricity Framework and Energy Billing audits will be discussed with the Director as to whether they are still required.

### **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

Report to ESPO Finance and Audit Subcommittee 6 June 2016 – Annual Internal Audit Plan



**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 30 January 2017

Appendix 2 – Summary progress against 2016-17 audits as at 30 January 2017

This page is intentionally left blank

Audit Name	Final Report Issued (or position @ 30/1/17)	Audit Opinion	HI Rec
<b><u>2015-16 Audits</u></b>			
Distribute Surplus - design model	Final Issued 6/6/16	Substantial Assurance	No
General Ledger Reconciliations	Final Issued 27/4/16	Substantial Assurance	No
BACS	Final Issued 6/6/16	Substantial Assurance	No
Information Management	Final Issued 11/7/16	Substantial Assurance	No
Customer Satisfaction	Final Issued 11/7/16	Substantial Assurance	No
IT General Controls	Final Issued 6/6/16	Substantial Assurance	No
Governance Framework	Final Issued 11/7/16	Substantial Assurance	No
Management Information - Profitability of Framework Agreements	Final Issued 25/7/16	Substantial Assurance	No
Transparency Code	Final Issued 12/5/16	N/A Advisory	N/A
<b><u>2016-17 Audits</u></b>			
Annual Governance Statement	Final Issued 16/8/16	N/A - concluded none of the findings required amendments to be made to the 15-16 AGS	No
Business Strategy Due Diligence in Mergers & Acquisitions	Advice Issued	N/A Advisory	N/A
Vehicle Operating Licences	Draft issued	Substantial Assurance	No
Absence Management	Draft issued	Substantial Assurance	No
Counter Fraud/NFI specific		N/A Advisory	N/A
Rebates Income	Final Issued 11/7/16	Substantial Assurance	No

This page is intentionally left blank

**Summary progress against 2016-17 audits as at 30 January 2017****Audits 'completed' to at least draft issued stage**

<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 @ 30<sup>th</sup> January 2017</u></b>
16/17	N/A	Complete 2015-2016 Audits	N/A	All audits complete
17-A	GO	Annual Governance Statement	Management self assessments of assurance in the 2015-16 AGS were founded and conformance to the revised CIPFA framework is planned and demonstrated	Final Issued - Concluded none of the findings required amendments to be made to the 15-16 AGS
17-B	GO	Business Strategy	There is robust governance over any significant developments and commercial projects arising from the Business Strategy	Advice issued in respect of due diligence considerations for any mergers or acquisitions
17-F	RM	Vehicle Operating Licences	There is compliance with VOL requirements to mitigate the risk of revocation of licences	Draft issued
17-G	RM	Absence Management	There is integrity in absence data reported and management is abiding by policies and processes	Draft issued
17-P	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	Final Issued. Substantial 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 @ 30<sup>th</sup> January 2017</u></b>
17-C	RM	Risk Management	Review parts of the corporate risk management process	Terms of Engagement being drafted
17-D	RM	Business continuity	Business continuity arrangements have been planned, communicated and are tested	Terms of Engagement being drafted
17-E	RM	Procurement & Compliance risk management	Frameworks are sufficiently robust to prove effectiveness and avoid liability. To include a specific framework contract and adherence to The Public Contracts Regulations 2015	M Star contract – draft report with Audit Manager
17-G	RM	Health & Safety	Employee health and safety risk is identified and adequately managed	Testing completed – report being drafted
17-I	RM	Counter Fraud/NFI specific	Interpretation and investigation of outputs	<ul style="list-style-type: none"> <li>• Data set extracts uploaded in October 2016 accordance with timetable of requirements.</li> <li>• Matches have just been released (26 Jan 2017)</li> </ul> <p>There may be additional work in assisting ESPO with any matches</p>
17-J	RM	Counter Fraud	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular Activity	Testing nearing completion
17-K	RM	ICT Applications	The Enterprise Resource Planning (ERP) upgrade is adequately planned	Work being undertaken as part of ICT general controls coverage below

17-P	IC	IT General Controls <sup>3</sup>	The range of controls expected by the External Auditor are well designed and consistently applied.	Testing nearing completion
17-Q	IC	Servicing authority	The servicing authority is providing service in line with the agreement	Terms of Engagement Issued
17-R1 <sup>*4</sup>	IC	Credit control	Key controls and processes relating to credit control are operating effectively and efficiently	Terms of Engagement Agreed – testing commenced

**Audits not started**

<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 @ 30<sup>th</sup> January 2017</u></b>
17-L	RM	Electricity framework	All supply points are transferred and exposure to 'out of contract' charges is mitigated.	
17-M	IC	Energy billing	Billing (including consolidated accounts) is timely, complete and accurate	
17-N	IC	Key financial systems <sup>3</sup>	To discuss with the External Auditor and Assistant Director (Finance). Includes reconciliations; receivables; payables; payroll and stock	Terms of Engagement being drafted – work was only due to commence in final month to allow 11 month coverage – coverage will therefore straddle two financial years

<sup>1</sup>unique reference numbers based on the financial year in question (i.e. '17' relates to 2016-17), 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

<sup>4</sup>additionally commissioned piece of work





## **ESPO FINANCE AND AUDIT SUBCOMMITTEE – 7 FEBRUARY 2017**

### **THE INTERNAL AUDIT CHARTER FOR ESPO**

### **REPORT OF THE CONSORTIUM TREASURER**

#### **Purpose of Report**

1. The purpose of this report is for the Subcommittee to review and note: -
  - a. additions to the Public Sector Internal Audit Standards (the PSIAS)
  - b. the revised Internal Audit Charter for ESPO containing the aforementioned additions and recommend its formal approval by the Management Committee

#### **Background**

2. The 'Relevant Internal Audit Standard Setters' (RIASS) in the UK (for which CIPFA represents local government), adopted from 1 April 2013 a common set of Public Sector Internal Audit Standards (the PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).
3. Additional requirements and interpretations for the UK public sector are inserted into the PSIAS. A Local Government Application Note (LGAN) developed by CIPFA guides the Head of Assurance Services when undertaking the role of Head of Internal Audit Service (HoIAS) in consistently applying the PSIAS.
4. The revised Accounts and Audit Regulations (2015) now reflect the PSIAS by stating that, '*A relevant local 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*'.
5. Following changes to the IPPF in 2015, two additions to the PSIAS were adopted from 1 April 2016, namely the Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

6. The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), and the HoIAS must periodically review the Charter and have it approved.

### **Additions to the PSIAS 2016**

7. The Mission of Internal Audit articulates what the internal audit activity aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. The PSIAS define the Mission of internal audit as, *'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.
8. The Core Principles, taken as whole, point to an effective internal audit function i.e. what 'good' internal audit looks like. The Principles are: -
- Demonstrates integrity.
  - Demonstrates competence and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organisational improvement.
9. The HoIAS is confident that both the Mission of Internal Audit and the Core Principles align to the current approach to providing the internal audit function at ESPO. Nevertheless, the LGAN will be revised to provide additional guidance and examples of how achievement can be demonstrated, but this is not likely to be issued until April 2017.
10. Further changes to the IPPF are to be implemented in January 2017 and they will be reflected in a further update to the PSIAS later in that year.

### **The Internal Audit Charter for ESPO**

11. The PSIAS mandate that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). Leicestershire County Council is the appointed Servicing Authority for ESPO, and is responsible for performing the functions set out in Schedule 3 of the Consortium Agreement, including under 'Support Services' the provision of internal audit service. The Charter establishes Leicestershire County Council's Internal Audit Service (LCCIAS) position with ESPO and the associated governance arrangements, including the nature of the HoIAS'

functional reporting relationship with the Subcommittee and Management Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

12. Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For ESPO, consultations with the Director of ESPO, the Consortium Secretary and the Consortium Treasurer i.e. the three Officers with delegated functions within the Consortium Agreement, interpreted the terms 'Board' as the Finance and Audit Subcommittee (the Subcommittee); 'Senior Management' as the three Officers i.e., collectively known as (the Officers), and the 'Chief Audit Executive' as Leicestershire County Council's Head of Internal Audit Service (HoIAS).
13. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a recognised statement for review and acceptance by the Officers and for the Subcommittee to recommend, as documented in formal minutes, final approval by the Management Committee.
14. A Charter also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility, which establishes the role of LCCIAS and whether it continues to be adequate to enable it to accomplish its objectives. If a question should arise, the Charter provides a formal, written protocol agreed with the Officers and the Subcommittee and Management Committee, about ESPO's internal audit activity.
15. The PSIAS mandate that the Internal Audit Charter for ESPO should: -
  - a. recognise the mandatory nature of the PSIAS
  - b. define the scope of internal audit activities recognising that internal audit's remit extends to the organisation's entire control environment not just financial controls
  - c. establish internal audit's responsibilities, objectives & organisational independence
  - d. establish accountability, reporting lines and relationships between the leader of the internal audit activity and those to whom they report functionally and administratively
  - e. set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies
  - f. establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

Additional public sector requirements also specify that the Charter must: -

- g. define the terms 'board' & 'senior management' in relation to internal audit activity
  - h. cover the arrangements for appropriate resourcing
  - i. define the role of internal audit in any fraud-related work
  - j. include arrangements for avoiding conflicts of interest if non audit activities are undertaken
16. In this first revision of the Charter, the HoIAS has taken account of the additional requirements of the PSIAS and amendments to the Accounts and Audit Regulations (2015). The revised Charter has 8 distinct sections: -

**Section   Content**

- |   |  |
|---|--|
| 1 | Introduction   |
| 2 | Mission of Internal Audit <b>(new)</b>                               |
| 3 | Purpose (PSIAS definition of the internal audit activity)            |
| 4 | The Core Principles <b>(new)</b>                                     |
| 5 | Definitions (including the Board and Senior Management)              |
| 6 | Authority (afforded to the internal audit activity) <b>(updated)</b> |
| 7 | Responsibility (of the Committee, CMT and the HoIAS)                 |
| 8 | The scope of the internal audit activity                             |
17. The HoIAS has interpreted that many of the detailed PSIAS requirements merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approaches to internal audit activity. Those intricate details are not repeated in the Charter but new requirements, extensions and variations are explained.
18. The revised Internal Audit Charter for ESPO, as reviewed by the Officers is included as Appendix 1.

**Resource Implications**

19. The determination of resource to undertake internal audit activity is referred to at various points throughout the Charter

**Equal Opportunities Implications**

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

**Recommendations**

21. That the Subcommittee: -
- a. reviews the revised Charter and notes the report
  - b. recommends to Management Committee final approval of the Charter.

**Background Papers**

Report to ESPO Finance and Audit Subcommittee 9 June 2016 – Annual Internal Audit Plan

**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 – The revised Internal Audit Charter for ESPO

This page is intentionally left blank

## The Internal Audit Charter for ESPO : Contents

<b>Section</b>	<b>Page</b>
<b>1. Introduction</b>	2
<b>2. The Mission of Internal Audit</b>	2
<b>3. Purpose</b>	2
<b>4. Core Principles for the Professional Practice of Internal Auditing</b>	3
<b>5. Definitions</b>	3
Independence	3
Objectivity	3
Assurance activity	4
Consulting activity	4
The Chief Audit Executive	5
The Board	5
Senior Management	5
<b>6. Authority</b>	6
Statutory and Professional Requirements for internal audit activity	6
Access	6
Organisational independence	7
<b>7. Responsibility</b>	7
The Subcommittee's responsibilities	8
The Officers' responsibilities	8
The HoIAS' responsibilities;	8
➤ Code of Ethics	8
➤ International Standards for the Professional Practice of Internal Auditing	9
➤ Attribute standards	9
➤ Performance standards	10
<b>8. The Scope of Internal Audit Activity</b>	11
The role of internal audit in fraud and corruption	12

## Introduction

### 1. Introduction

- 1.1. The Public Sector Internal Audit Standards (the PSIAS), provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA) standards, and also additional requirements and interpretations for the UK public sector. The PSIAS were revised from 1<sup>st</sup> April 2016. A Local Government Application Note (LGAN) developed by CIPFA provides practical guidance on how to apply the PSIAS.
- 1.2. The PSIAS mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive (the term is explained at 5.10 below) must periodically review the Charter and present it to senior management and the board for approval. Responsibility for, and ownership of, the Charter remains with the organisation and final approval of the Charter resides with the Board (the term is explained in 5.12 and 5.13 below).

### 2. The Mission of Internal Audit

- 2.1. *To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

### 3. Purpose

- 3.1. The purpose of the internal audit activity is explained by the PSIAS Definition of Internal Auditing: -

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*

- 3.2. The LGAN further explains that '*the organisation (ESPO's management) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (known as the control environment). Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit*



*activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.*

3.3. Leicestershire County Council Internal Audit Service (LCCIAS) has adopted the PSIAS definition of internal auditing.

#### **4. Core Principles for the Professional Practice of Internal Auditing**

4.1. The Core Principles, taken as whole, articulate internal audit effectiveness.

4.2. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The Head of Assurance Services acting in the role of the role of Head of Internal Audit Service (HoIAS) is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

4.3. The Core Principles are: -

- a. Demonstrates integrity.
- b. Demonstrates competence and due professional care.
- c. Is objective and free from undue influence (independent).
- d. Aligns with the strategies, objectives, and risks of the organisation.
- e. Is appropriately positioned and adequately resourced.
- f. Demonstrates quality and continuous improvement.
- g. Communicates effectively.
- h. Provides risk-based assurance.
- i. Is insightful, proactive, and future-focused.
- j. Promotes organisational improvement.

#### **5. Definitions**

##### **Independence**

5.1. The PSIAS define independence as *'the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity requires the head of the activity to have direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels'*.

##### **Objectivity**

5.2. The PSIAS define objectivity as *'an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit*

*matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels’.*

### **Assurance activity**

- 5.3. This is defined in the PSIAS as ‘*An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements’.*
- 5.4. LCCIAS conducts a wide range of engagements (assignments) designed to evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all aspects of ESPO’s control environment (including where it works in partnership with, and leads on behalf of others).
- 5.5. LCCIAS aims to co-ordinate its assurance activity with any other identified internal and external providers of assurance services to ensure sufficient and proper coverage over the control environment and minimise duplication of efforts.

### **Consulting activity**

- 5.6. This is defined in the PSIAS as ‘*Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility’.*
- 5.7. LCCIAS often acts in a consulting role and provides support for improvement in ESPO’s systems, procedures and control processes without assuming management responsibility. Examples include advice, commentary on management’s intended control design and framework and potential implications of changes to systems, processes and policies. The provision of such advice does not prejudice LCCIAS’ right to evaluate the established systems and controls at a later date. Other consulting could include counsel, facilitation and training.
- 5.8. There is a specific public sector requirement that ‘*Approval must be sought from the Board (see paragraphs 3.12 to 3.14 below) for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.* This is to ensure an appropriate balance of assurance (the primary internal audit function) and consulting activity.
- 5.9. The combined results and outcomes of assurance and consulting activities are fundamental to determining the annual internal audit opinion on the overall adequacy and effectiveness of ESPO’s control environment.

## The Chief Audit Executive

- 5.10. Although the PSIAS and LGAN have both adopted the original IIA Standards term 'Chief Audit Executive', it is recognised that this only describes a role, which at the Council (the Servicing Authority for ESPO) is performed by the Head of Internal Audit Service (HoIAS). Within this Charter, all references from hereon are to the HoIAS.

## The Board and Senior Management

- 5.11. A public sector requirement of the PSIAS is for the Charter to define the terms 'Board' and 'Senior Management' for the purposes of internal audit activity. The LGAN advises the terms must be interpreted in the context of the governance arrangements within each individual organisation.

### The Board

- 5.12. The PSIAS define the Board as '*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. This includes a supervisory board or a board of governors or trustees... 'Board' may refer to an audit committee to which the governing body has delegated certain functions.*
- 5.13. For ESPO, the Terms of Reference for the Finance and Audit Subcommittee (the Subcommittee) include a delegated function to, '*Receive and review audit and governance reports*'.
- 5.14. Consequently, at ESPO the Finance and Audit Subcommittee (the Subcommittee) will perform the function of the Board. Within this Charter, all references from hereon are to the Subcommittee.

### Senior Management

- 5.15. There is not a specific definition of 'senior management' in either the PSIAS or the LGAN. However, the PSIAS require '*the HoIAS to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals*', and the LGAN advises that '*an effective internal audit service should understand the whole organisation, its needs and objectives*'.
- 5.16. In order to fully understand and be able to fulfill its responsibilities, the HoIAS and his/her team requires unfettered access to not only the Director of ESPO (the Director) but also, given the role of the Servicing Authority, to both the Consortium Secretary (the Secretary) and Consortium Treasurer (the Treasurer).
- 5.17. Consequently, at ESPO, the three roles of Director, Secretary and Treasurer (collectively referred to as the Delegated Officers (the Officers) will perform the functions of Senior Management. Within this Charter, all references from hereon are to the Officers.

## 6. Authority

### Statutory and Professional Requirements for internal audit activity

- 6.1. ESPO is a local authority purchasing consortium made up of six local authorities for which the Council is the Servicing Authority. The Accounts and Audit Regulations 2015 (the Regulations), require 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'*.
- 6.2. Section 151 of the Local Government Act 1972, states that every local authority should *'make arrangements for the proper administration of their financial affairs, and shall secure that one of their officers has responsibility for the administration of those affairs'*. CIPFA defines that *'proper administration'* should include *'compliance with the statutory requirements for accounting and internal audit'*. ESPO's Constitution (Financial Regulation Rule 15(a)) determines that *'Responsibility for arranging a continuous internal audit of the ESPO's financial management arrangements will be delegated by the Management Committee to the Consortium Treasurer'*.
- 6.3. The relationship between the head of the internal audit activity, namely the HoIAS, and the Treasurer (the Chief Financial Officer (CFO) of the Council) is of particular importance in local government. The CIPFA Statement on the Role of the CFO in Local Government states that the CFO must: -
- a. *ensure an effective internal audit function is resourced and maintained*
  - b. *ensure that the authority has put in place effective arrangements for internal audit of the control environment*
  - c. *support the authority's internal audit arrangements*
  - d. *ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively*
- 6.4. At ESPO, the Treasurer: -
- a. In conjunction with the Director and the Secretary contributes to and agrees the overall annual internal audit plan
  - b. In conjunction with the Director receives periodic updates on progress and performance against the plan and approves major variations before they are reported to the Committee
  - c. commissions (or approves) unplanned audits
  - d. is the HoIAS' line manager and conducts his/her annual performance and development review;
  - e. In conjunction with the Director determines LCCIAS resources required for ESPO;

### Access

- 6.5. PSIAS 1000 requires the Charter to, *'establish internal audit's right of access to all records, assets, personnel and premises, including those of partner*

*organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities’.*

- 6.6. ESPO’s Constitution Financial Regulations Rule 15(b) states that the Treasurer or an authorised representative (interpreted to be any LCCIAS internal auditors) has authority to:-
- a. enter any ESPO building or land at all reasonable times;
  - b. have access to all records, documents and correspondence relating to any transactions of ESPO;
  - c. receive such explanations as he or she considers necessary on any matter under examination;
  - d. require any employee of ESPO to produce cash, stores or any other ESPO property under his/her her control.
- 6.7. Whilst not explicit, Rule 15(b) is a conduit to seeking agreement to access any relevant partner organisations’ records.

### **Organisational independence**

- 6.8. The PSIAS require that *‘reporting and management arrangements must be put in place that preserves the HoIAS (and LCCIAS’) independence and objectivity, in particular with regard to the principle that they must remain independent of the audited activities’.*  
This requirement aligns to CIPFA’s Statement on the Role of the Head of Internal Audit (2010) that *‘organisations need to ensure that where the HoIAS is an employee, he or she is ‘sufficiently senior and independent within the organisation’s structure to allow them to carry out their role effectively and be able to provide credibly constructive challenge to the Management Team’.*
- 6.9. PSIAS 1110 on Organisational Independence states that *‘the HoIAS (HoIAS) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The HoIAS must confirm to the Subcommittee, at least annually, the organisational independence of the internal audit activity’.* An additional public sector requirement of PSIAS 1110 is that *‘The HoIAS must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee’.*
- 6.10. The HoIAS reports to the Treasurer and to the Subcommittee (reports are agreed with the Director beforehand). The HoIAS has direct access to ESPO’s organisational management team, the Secretary and, if required, to the Chair of the Subcommittee. In accordance with PSIAS 1110A.1, there is acknowledgement amongst these parties that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

## **7. Responsibility**

This section of the Charter summarises the key responsibilities of the Subcommittee, the Officers and the HoIAS and LCCIAS internal auditors

### **The Subcommittee's responsibilities**

7.1. The Subcommittee does not have any decision making authority. Instead, the Management Committee has overall strategic responsibility for the management oversight and direction of ESPO, and it is the sole decision maker. As such, the Subcommittee will undertake the following key duties within the PSIAS which will then have to be formally approved by the Management Committee, namely review and note: -

- a. the internal audit charter
- b. the risk based internal audit plan
- c. communications from the HoIAS on internal audit performance relative to its plan and other matters
- d. an annual confirmation from the HoIAS with regard to the organisational independence of the internal audit activity
- e. the HoIAS' annual report, including the opinion on the control environment, a statement on conformance to the PSIAS and the results of the Quality Assurance and Improvement Programme – QAIP (see 5.4a)
- f. whether there are inappropriate scope or resource limitations, determined by making appropriate enquiries of the Officers and the HoIAS.

### **The Officers' responsibilities**

7.2. The effectiveness of the internal audit activity relies upon the full co-operation of Senior Management. Under this Charter, the Officers will co-operate with the HOIAS in the following: -

- a. providing input to the annual risk based internal audit plan
- b. agreeing Terms of Engagement within agreed timescales
- c. sponsoring each audit at Assistant Director level
- d. providing LCCIAS with full support and co-operation including access to relevant records and personnel
- e. responding to LCCIAS reports within agreed timescales;
- f. ensuring that agreed recommendations are implemented within timescales;
- g. providing assurance that management actions have been implemented
- h. notifying the Treasurer of any significant changes in the control environment and proposed changes and developments in systems;
- i. notifying the Treasurer and Secretary of all suspected or detected fraud, corruption or impropriety.

### **The HoIAS' responsibilities**

#### **Code of Ethics**

7.3. The HoIAS must ensure that LCCIAS internal auditors conform to the Code of Ethics (the Code), which promotes an ethical and professional culture and

comprises both principles that are relevant to the profession and practice of internal auditing, and rules of conduct that describe behaviour norms and guide the ethical conduct expected of internal auditors. The Code does not supersede or replace either individuals' own professional bodies' codes of ethics or those of the Council (LCCIAS' employer). A PSIAS public sector requirement is that LCCIAS internal auditors must have regard to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

### **International Standards for the Professional Practice of Internal Auditing**

7.4. The HoIAS must ensure that there is a robust framework supporting the activity of internal audit and that LCCIAS' internal auditors are trained and guided, and their performance monitored, to ensure they conform to the detailed attribute and performance standards within the PSIAS.

7.5. LCCIAS will conform to the full range of the standards. Nevertheless, the HoIAS has interpreted that many of the detailed PSIAS requirements for planning, performing, communicating results and monitoring progress merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approach to internal audit activity and so those details are not repeated in this Charter. Only new requirements, extensions and variations are explained in more detail below: -

#### **Attribute standards**

- a. 1300 - The HoIAS must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. This is a new requirement for LCCIAS.

The QAIP should enable: -

- evaluations of LCCIAS' conformance with the Definition of Internal Auditing and the Standards
- internal auditors' compliance with the Code of Ethics
- assessment of the efficiency and effectiveness of the internal audit activity
- the identification of opportunities for improvement.

The QAIP must plan for both internal and external assessments and the latter must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

To avoid any duplication and unnecessary cost, the HoIAS would discuss with and gain agreement from the Council's 'Board' (Corporate Governance Committee) to both the form of external assessments and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. There are two additional public sector requirements: -

- the HoIAS must agree the scope of external assessments with an appropriate sponsor, e.g. the Council's CFO (the Consortium Treasurer) as well as with the external assessor or assessment team
- The HoIAS must communicate the results of the QAIP and progress against any improvement plans, firstly to the Council's Senior Management Team and Board, and then to ESPO's equivalents. The results must be reported in the HoIAS' annual report (usually on the agenda for the June Committee). The HoIAS may state that LCCIAS conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the QAIP support this statement. When non-conformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the HoIAS must disclose the non-conformance and the impact to the respective Senior Management Teams and Boards.
- An additional public sector requirement is that more significant deviations must be considered for inclusion in the governance statement.

### **Performance standards**

- b. 2000 - The HoIAS must effectively manage the internal audit activity to ensure it adds value to the organisation. This sub-set of requirements includes the HoIAS' responsibility to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

There is a revised requirement for the risk based plan to incorporate or be linked to a strategic or high-level statement of how the internal audit activity will be delivered and developed in accordance with the Charter and how it links to ESPO's objectives and priorities.

There are two additional public sector requirements: -

- the risk-based plan must explain how LCCIAS' resource requirements have been assessed. Where the HoIAS believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Subcommittee
- the HoIAS must include in the risk-based plan the approach to using other sources of assurance (e.g. the External Auditor or where ESPO is in partnership with another organisation) and any work required to place reliance upon those other sources.

Reporting to the Subcommittee on performance relative to the plan is well established. However PSIAS also requires periodically reporting to the Treasurer and the other two Officers and the Subcommittee on the internal audit activity's purpose, authority and responsibility.



- c. 2100 - The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. This sub-set formalises some of the work already undertaken by LCCIAS to assess and make appropriate recommendations for improving the governance process, but then requires specific coverage to ensure accomplishment of the following objectives: -
- Promoting appropriate ethics and values within ESPO;
  - Ensuring effective organisational performance management and accountability;
  - Communicating risk and control information to appropriate areas of ESPO;
  - Coordinating the activities of and communicating information among the Subcommittee, external and internal auditors and management.

For risk management processes, there are requirements to evaluate risk exposures relating to ESPO's governance, operations and information systems and the potential for the occurrence of fraud and how ESPO manages fraud risk.

- d. 2400 – LCCIAS must communicate the results of engagements, including the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. The PSIAS is explicit that LCCIAS auditors may report that their engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing", only if the results of the QAIP support the statement.

A specific public sector requirement formalises the HoIAS responsibility to deliver an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment contained within a report that can be used to inform the governance statement. A new requirement is for the HoIAS annual report to include a statement on conformance with the PSIAS and the results of the QAIP.

- e. 2600 - When the HoIAS concludes that ESPO's organisational management has accepted a level of risk that may be unacceptable and there is a danger that ESPO's objectives may not be achieved, the matter should be discussed with the Treasurer and/or the other two Officers. If the HoIAS determines that the matter has not been resolved, the HoIAS must communicate the matter to the Subcommittee.

## **8. The Scope of Internal Audit Activity**

- 8.1. The Officers are responsible for establishing and maintaining appropriate governance, risk management and control arrangements (i.e. the control environment), for not only ESPO activities, but also for those provided in conjunction with, and/or on behalf of its partners. LCCIAS' remit extends to ESPO's entire control environment. However, limitations on internal audit resource requires the HoIAS to understand and take account of the position

with respect to ESPO's other sources of assurance (internal and external) and plan internal audit work accordingly so that activity can be co-ordinated, ensuring proper coverage and minimising duplication of effort.

8.2. Internal audit activity for ESPO (and, where appropriate its partners) includes:

- 
- providing assurance services i.e. reviewing, appraising and reporting on: -
  - the soundness, adequacy and application of governance processes, risk management frameworks and internal controls;
  - the extent to which assets are accounted for and safeguarded from losses of all kinds
  - the suitability and reliability of financial and other data developed;
  - reviewing compliance and conformance to rules, regulations, laws, codes of practice, guidelines and principles
  - the accuracy and completeness of grant claims
- providing consulting services;
- undertaking investigations, studies, reviews or assignments as directed (or approved) by the Officers;

### **The role of internal audit in fraud and corruption**

8.3. The Officers are responsible for developing and maintaining a control environment that mitigates the risk of fraud and corruption

8.4. The HoIAS is responsible for reviewing and evaluating ESPO's approach to managing the risks of fraud, bribery and corruption. This includes: -

- Ensuring that strategies, policies and procedures are kept up to date and align with relevant codes of conduct
- Ensuring adherence to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
- Assisting with developing training and guidance on fraud awareness
- Coordination of ESPO's involvement in national anti-fraud projects

8.5. LCCIAS does not have responsibility for the detection or prevention of fraud and corruption, but it considers those risks when undertaking its activities. The independence of the internal audit activity leaves it well placed to undertake (or guide) any investigations that are required. The HoIAS will determine the level and scope of LCCIAS' involvement including delegating the investigation of specific allegations to ESPO itself following an assessment of risk and financial impact.

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

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