



Date: 1 May 2018
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held at on Wednesday, 9 May 2018 at 10.30 am in the Goscote 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,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 7 February 2018.	(Pages 3 - 6)
2.	Declarations of interest in respect of items on the agenda.	
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
4.	Internal Audit Service Peer Review Outcome.	(Pages 7 - 18)



5. Any other items which the Chairman has decided to take as urgent.
6. 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.

7. Draft Outturn 2017-18. (Pages 19 - 26)
8. Progress Against Internal Audit Plans (2017-18 and 2018-19). (Pages 27 - 52)
9. Head of Internal Audit Service Annual Report 2017-18. (Pages 53 - 86)



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Wednesday 7th February 2018.

PRESENT

Dr. R. K. A. Feltham CC – Leicestershire County Council (in the Chair)

Cambridgeshire County Council
Mr. M. Howell CC

Peterborough City Council
Mr. D. Seaton CC

Warwickshire County Council
Mr. P. Butlin CC

Apologies.

Mr. J. Fisher – Norfolk County Council
Mrs. S. Rawlins – Lincolnshire County Council
Mr. R. Butroid – Lincolnshire County Council

41. Minutes of the meeting held on 7th February 2017

The minutes of the meeting held on 7th February 2017 were taken as read, confirmed and signed.

42. 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.

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

There were no urgent items for consideration.

44. Date of next meeting.

It was noted that the next meeting of the Committee would be held on 9th May 2018 at 10.30am.

45. 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 items of business 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:-

- i) Internal Audit Service – Progress against the 2017-18 Internal Audit Plan
- ii) MTFFS Monitoring for the first nine months of 2017/18
- iii) Forecast Outturn 2017/18 and Draft Medium Term Financial Strategy 2018/19
- 2021/22

46. Internal Audit Service - Progress Against the 2017-18 Internal Audit Plan

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the Internal Audit Plan for 2017 - 18. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The 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).

In response to questions, the Subcommittee was advised as follows:-

- i) The two high importance (HI) recommendations concerning MSTAR and Data Protection would be followed up in the first quarter of the next financial year and copies of the full audit reports along with the report on the Supply Chain when completed would be made available to members;
- ii) The Internal Audit Service was provided under a Service Level Agreement (SLA) between the County Council as Servicing Authority and ESPO. Other services provided under the SLA included services such as finance, insurance, legal and democratic. The cost of the audit service to ESPO in the current financial year was approximately £50,000 and was based on the number of days worked;
- iii) There was a good relationship between ESPO and Internal Audit. Where the Internal Audit service had concerns about responses from ESPO to its recommendations there was provision for these concerns to be escalated to the Director of Finance at Leicestershire County Council (in his role as Consortium Treasurer) and if necessary to the Chairman of the Management Committee. Reference was also made to the Audit Charter approved by the Management Committee which governed the relationship;
- iv) There was confidence that the Internal Audit Service had the right skill mix to undertake audits of ESPO as it currently operates. It was noted that when the Trading Company starts to operate there could be a need to obtain external commercial audit expertise;

RESOLVED:

That the contents of the report be noted.

47. MTFFS Monitoring for the first nine months of 2017-18.

The Subcommittee received a exempt report of the Director and Consortium Treasurer outlining the results of the first nine months of trading from April to December 2017. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

The 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).

Arising from discussion the following points were raised:-

- i) The increase in the cost of agency staff was as a result of a deliberate policy given the peaks and troughs experienced by the business. The use of agency staff offered flexibility and reduced costs. This policy had now reached the point where the optimum level of core permanent staff required had been reached and moving forward there would not be a significant increase in agency costs;
- ii) To date recruitment of warehouse staff had not been an issue and there had been a number of instances where agency staff had transferred onto the permanent staff;
- iii) There was an issue regarding the recruitment of HGV drivers both in terms of succession planning and the remuneration package for those driving 12tonne vehicles. The job evaluation of drivers recently undertaken has in part addressed this problem.
- iv) The risk register contain a risk covering Brexit. Approximately 25% of staff working for ESPO was from EU countries. It was too early to assess the impact that Brexit would have on recruitment but the position would be closely monitored.
- v) The additional cost shown for the Finance and IT sections was primarily due to ESPO having to run the GEMS and Optima Systems for gas sales. It is hoped that the Optima system would be fully implemented by June 2018 at which point the GEMS system would be discontinued.

RESOLVED:

That the contents of the report and comments now made be noted.

48. Forecast Outturn 2017/18 and Draft Medium Term Financial Strategy 2018/19 - 2021/22

The Subcommittee considered a report outlining the draft proposals for the Medium Term Financial Strategy covering 2018/19 - 2021/22 and the draft budgets covering that period. A copy of the exempt report, marked 'Agenda Item 9', is filed with these minutes.

The 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).

Members noted the tougher financial and business environment now facing ESPO and the financial impact of the pay offer which was estimated £900,000. It was noted that notwithstanding these additional pressures the ambition was to achieve a £6million surplus by 2021.

In reply to questions the Director advised as follows:-

- i) Discussions had been held with the Chief Officer Group regarding the potential acquisition of a small private sector company with a turnover of just over £1million which specialised in serving the early year's market. This would fit well with ESPO's future ambition as the early years market was a key driver in

setting up the trading company as most operators in that market were private sector providers. An update will be provided to the Management Committee;

- ii) ESPO's insurance was renewed annually and competitive quotes were sought. Consideration would be given to the suggestion now made about some element of self-insurance by having a higher insurance excess ;
- iii) The proposed investment in the new website was seen as critical in developing ESPO's online presence and improving the customer shopping experience. A full business case was being prepared and would be submitted to the Management Committee for approval. The cost of developing the website and the other proposed developments will be met from reserves.

RESOLVED:

- a) That the draft four year medium term financial strategy, be noted;
- b) That the forecast outturn and draft budgets for 2018/19 - 2021/22, be noted;
- c) That the forecast outturn and draft Medium Term Financial Strategy be recommended for approval at the Management Committee on 28 February 2018.

**11.30am - 11.55am
7th February 2018**

CHAIRMAN



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 MAY 2018

INTERNAL AUDIT SERVICE – PEER REVIEW OUTCOME

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To inform the Finance and Audit Subcommittee of the outcome of the recently conducted peer review of Leicestershire County Council's Internal Audit Service.

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. 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.
4. At its meeting on 29 January 2018, the County Council's Corporate Governance Committee was informed that in line with requirements of the Public Sector Internal Audit Standards (PSIAS), which aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function, as part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. A review of Leicestershire County Council's Internal Audit Service (LCCIAS) was due to be carried out by the end of March 2018.
5. The types of review were explained and reasons given for a preferred option, a self-assessment of conformance with independent validation being carried out through peer review. The Council's Committee supported this approach.
6. Veritau Limited was chosen to undertake an independent validation of the self-assessment. Veritau is a local authority shared service company which provides internal audit and other governance related services to its member councils and other public sector

organisations. Veritau is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the council.

Scope and methodology of the review

7. The Council's Head of Internal Audit & Assurance Service (the HoIAS for ESPO) and his team compiled a self-assessment against the PSIAS and submitted it along with supporting evidence to the review team.
8. The review team were on site at County Hall for two days and conducted interviews with the Chair of the Council's Corporate Governance Committee, the Council's Chief Executive and six County Council Directors. To establish the views from other organisations that LCCIAS provides service to, the reviewers also interviewed the Chief Fire and Rescue Officer and the Head of Finance (Leicester City Council). In addition the HoIAS and seven staff from the Internal Audit Service were interviewed. At the end of the two days, verbal feedback was provided to the Director of Corporate Resources (ESPO's designated Consortium Treasurer) and the HoIAS.
9. Internal audit electronic work files were provided to allow the reviewers to evaluate consistency and diligence in processes.

Outcome of the review

10. The reviewer's draft report was received on 11th April 2018 and is contained as the Appendix. The HoIAS has shared the report with the Consortium Treasurer and it will be accepted without alteration.
11. Paragraphs 15 to 17 of Veritau's report inform that, *'It is our overall opinion that Leicestershire County Council (Internal Audit Service) generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards. The review team found a number of areas of good practice as well as a number of areas which merit further attention. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards'*.
12. It is pleasing to have received the top rating which will now be able to be quoted in internal audit documentation and communication. Nevertheless, the HoIAS will determine an action plan to improve those areas which Veritau has suggested merit further attention.

Resources Implications

13. None

Recommendation

14. That the Subcommittee reviews and notes the outcome of the peer review contained in Veritau's report

Equal Opportunities Implications

12. There are no specific equal opportunities implications resulting from the peer review undertaken.

Background Papers

Constitution of the ESPO Management Committee
The Public Sector Internal Audit Standards (revised from April 2017)

Officer to Contact

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Leicestershire County Council

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Appendix

Appendix Internal Audit Service Annual Report 2017-18

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SELF ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION
LEICESTERSHIRE COUNTY COUNCIL
MARCH 2018

Introduction

- 1 In accordance with the UK Public Sector Internal Audit Standards,¹ the chief audit executive² must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity (performance standard 1300). The quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The quality assurance and improvement programme must include both internal and external assessments. An external assessment must be conducted at least once every five years.
- 2 There are two acceptable approaches to conducting an external assessment:
 - Full external assessment
 - Self-assessment with independent validation.
- 3 The availability and relevant experience of the assessor or assessment team, the likely cost, the potential for added value and lack of any real or apparent conflict of interest are all factors which should be considered in deciding which method to adopt.
- 4 Leicestershire County Council has chosen to appoint Veritau Limited to undertake an independent validation of its self-assessment. Veritau is a local authority shared service company which provides internal audit and other governance related services to its member councils and other public sector organisations. Veritau is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the council.

Leicestershire County Council – Internal Audit service

- 5 Leicestershire County Council maintains an in-house internal audit team. The team is managed by Neil Jones CPFA (Head of Internal Audit and Assurance) and comprises 15 staff (14.5 FTEs).
- 6 As well as the County Council, the team has provided internal audit services to the Leicestershire Pension Fund, Leicestershire Fire and Rescue Service and the Eastern Shires Purchasing Organisation (ESPO) for a number of years. Since November 2017, Leicester City Council has also delegated responsibility for the provision of internal audit to the County Council. As a result of this, four members of audit staff previously employed by the City Council were transferred to the County Council. Work is now ongoing to integrate working

¹ Which reflect International Standards for the Professional Practice of Internal Auditing

² For LCC this is the Head of Internal Audit and Assurance

practices and systems across the two councils so that there is a common approach to internal audit provision.

- 7 Leicestershire County Council also provides internal audit services to a number of academy schools under contract.
- 8 The Head of Internal Audit and Assurance reports to the Director of Finance (s151 officer) at the County Council, Chris Tambini, and is supported by three audit managers who are responsible for overseeing the delivery of services and ongoing client liaison. As well as internal audit, the in-house team leads on risk management, insurance and counter fraud for the County Council. It also supports the preparation of the Annual Governance Statement. A number of staff within the team hold relevant qualifications and have expertise in these areas. The City Council continues to maintain a separate counter fraud team.
- 9 Audit Charters have been agreed for each client and these are regularly updated. Audit plans and the outcomes of internal audit activity are reported to the County Council's Corporate Governance Committee or the respective audit committee for the team's other clients.

Scope and Methodology of the Review

- 10 This review was limited to the internal audit activities undertaken for the County Council and the team's other clients for internal audit services. The arrangements for delivering risk management, insurance and counter fraud services were considered to be out of scope. At the time of the review, internal audit services had only been provided to Leicester City Council for a few months and only limited progress had been made to integrate systems and working practices. In effect, the service to the City Council has continued to be provided in much the same way as it was before the delegation of responsibilities. This is therefore a period of transition for the internal audit service and this was recognised by the review team.
- 11 The review team examined the self-assessment document and associated evidence collated by the Head of Internal Audit and Assurance. The review team also undertook a limited review of recently completed audit files to compare actual practice with the professional practices and working protocols established by the team. The review considered audit planning, testing, reporting and follow up processes. Conformance with the Code of Ethics, the adequacy of training and development arrangements, the availability of specialist audit skills and the use of technologies were also considered.
- 12 The review team spent 2 days on site in Leicester during March 2018, interviewing internal audit staff and officers from the County Council and other clients. The chair of the Corporate Governance Committee was also interviewed. To assist and provide some structure to the interviews the review team circulated prompt sheets in advance of the visit. The questions included consideration of the overall benefits of internal audit, resource planning, strategic audit planning, the conduct of audit staff, the quality of audit reports, and whether the service was seen to add value to its client organisations. At

the end of the visit the findings and conclusions of the review team were reported to the Director of Finance and the Head of Internal Audit and Assurance.

Review Team

- 13 The review team consisted of Max Thomas and Richard Smith from Veritau. Max Thomas is a Chartered Accountant (ICAEW) with nearly 30 years auditing experience of which over 20 years has been in local government. Max is the chief executive of Veritau. Richard has worked in the local government sector for over 20 years, including over 15 years in internal audit. Richard is the Deputy Chief Executive of Veritau and is a Chartered Public Finance Accountant (CPFA).
- 14 Veritau is a local authority controlled company which provides internal audit, counter fraud and other governance services to its six member councils and a number of other public sector bodies.

Overall Opinion

- 15 It is our overall opinion that Leicestershire County Council generally conforms to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics* and the *Standards*.
- 16 The review team found a number of areas of good practice as well as a number of areas which merit further attention. Further details are provided below.
- 17 The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities. The full definitions are given at the end of this document.
- 18 The results of this review together with the quality assurance and improvement programme (QAIP) should be reported to senior management and the board³.

Areas of Good Practice

- 19 The in-house audit team is well established and has an extremely good reputation with officers within the County Council and its client organisations.

³ The County Council's Corporate Governance Committee or relevant audit committee (for external clients).

The review team received consistently positive feedback about the team from senior managers and the chair of the Governance Committee.

- 20 The service has credibility and its recommendations and advice are valued by management. The service is focussing on the right areas and the annual audit plan is clearly aligned to the County Council's key risks and priorities. The team's wider responsibility for coordinating the council's risk management arrangements is beneficial in this respect. Plans also include an appropriate mix of compliance work and more forward looking strategic type audits.
- 21 The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client. Client officers reported that the internal audit team is also not afraid to raise issues of concern and to provide challenge to management.
- 22 The audit team is well resourced and the auditors take pride in the work they do. IT audit capability is strong and the team is very stable which offers good continuity. Audit assignments are appropriately planned and the testing is directed to those areas of greatest importance. Audit reports are balanced, and an executive summary has recently been added to the standard report format. Client officers are therefore better able to focus on the key issues. Client officers also feel able to question and challenge findings and recommendations where appropriate.
- 23 High priority recommendations are systematically followed up and the results are reported to the County Council's Corporate Governance Committee or audit committee as appropriate.
- 24 The service is endeavouring to develop a number of areas to help support its future work, including more use of computer assisted audit techniques (CAATS) and assurance mapping.

Areas which Merit Further Attention

- 25 The following are highlighted as areas which may merit further attention by the Head of Internal Audit and Assurance:
 - The self assessment has recently been updated but would still benefit from more detailed commentary and, in some areas, the evidence provided to demonstrate conformance with PSIAS was insufficient for the purpose.
 - The Audit Manual needs to be updated to reflect approved working practices and to ensure policies and procedures are properly communicated to the team. The review team recognise that the service is currently going through a period of transition and may therefore wish to delay this until the planned changes to systems and processes have been completed.

- Linked to this, steps should also be taken to improve the consistency of working papers and the approach to documenting work.
- Senior managers welcomed the recent addition of an executive summary to the audit report format. The service should however undertake a further review of the overall report format to ensure it continues to meet the needs of stakeholders.
- Whilst there are benefits from the team having responsibility for other governance related activities it is important that there are also appropriate safeguards to internal audit independence and objectivity. These arrangements should be more clearly communicated to the Corporate Governance Committee and other audit committees, and be kept under review in order to reduce the risk of impairment.
- Consideration should be given to developing competency profiles for each grade of auditor to help structure future training and development.
- Key performance measures should be defined and appropriate targets set with each client to help measure the efficiency and effectiveness of the service.
- Feedback on the quality of the overall service should be requested periodically from key stakeholders (including senior officers and audit committee members).
- Whilst the follow up of high priority audit recommendations is effective there is scope to adopt a more systematic approach to the follow up of other recommendations.
- Steps should be taken to promote the availability of Internal Audit as a source of strategic advice and support, and hence further raise the profile of the service.
- The team should continue to develop its use of data analytics to enable the increased use of whole population testing and continuous auditing.
- Consideration should be given to including a disclaimer on the Terms of Reference and standard report format used by the service.
- As the team expands its client base consideration should be given to further developing its agile working practices.

Max Thomas

11 April 2018

Attachment A - Definitions

“Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

“Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

“Does Not Conform” means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

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