



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 29th January 2019
My Ref: CT/ESPO
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held at on Wednesday, 6 February 2019 at 10.30 am in 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,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Pages</u>
1. Notes of the inquorate meeting held on 9th May 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 - Progress against the 2018-19 Internal Audit Plan	(Pages 7 - 18)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
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5. Exclusion of the press and public.

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

6. Forecast Outturn 2018/19 and Draft MTFS 2019/20 - 2022/23. (Pages 19 - 78)

7. Date of next meeting.

The date of the next meeting is scheduled to take place on 8th May 2019 10.30am.

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

Notes of an inquorate meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Wednesday, 9 May 2018.

PRESENT

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

Norfolk County Council
Cllr. J. Fisher

49. Minutes of the meeting held on 7 February 2018.

The notes of the meeting held on Wednesday 7 February 2018 were taken as read, confirmed and signed.

50. 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.

51. 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.

52. Internal Audit Service Peer Review Outcome.

The Members present considered a report of the Consortium Treasurer informing Members of the recently conducted peer review of Leicestershire Council's Internal Audit Service. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Members were informed the self-assessment of conformance with independent validation had been carried out through peer review. Veritau Limited, a local authority shared service company, had been chosen to undertake the independent validation of the Council's self-assessment. Resulting from the review the Council had been rated as 'generally conforms' the top rating possible.

Members present asked the contents of the report be noted.

53. Exclusion of the public.

It was agreed 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.

54. Draft Outturn 2017-18.

Members present considered an exempt report of the Director and Consortium Treasurer outlining the draft Outturn for 2017/18. A copy of the report, marked 'Agenda Item 5', 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).

Members were updated as follows. It had been a record year despite the background of a tough market place but it was accepted the trading environment that ESPO operates in would continue to present significant challenges for the foreseeable future. Despite this, the ambition remained to achieve a £6million surplus by 2021.

Total staff costs were £619k below budget reflecting vacancies due to a number of senior staff leaving and difficulties in recruitment.

The dual running of the Optima and Gems systems had been stopped.

Members noted:

- a) the draft outturn for 2017/18;
- b) the draft outturn for 2017/18 that would be submitted at the next meeting of the Management Committee for approval.

55. Progress Against Internal Audit Plans (2017-18 and 2018-19).

Members received a report of the Consortium Treasurer outlining the quarterly progress against the 2017/18 Internal Audit Plan. A copy of the 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).

Members noted that based on the high importance recommendations from the 2017-2018 audit work on General Data Protection, work had been completed on removing sensitive data from databases to satisfaction. Further work was ongoing on Data Protection training while completion rate had risen from 14% to 62% this was still below the Information Commissioners Office recommended 90% completion rate nonetheless this was still a huge positive shift, and work would be ongoing to reach the recommended 90% completion.

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

56. Head of Internal Audit Service Annual Report 2017-18.

Members received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report 2017/18. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

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

Members were pleased to note the positive opinions given on all three components of the 'control environment' i.e. the framework of governance, risk management and control and that LCCIAS 'generally conforms to the PSIAS, which is considered the top rating.

Members noted the contents of the Internal Audit Service Annual Report 2017/18 and recommend the report to the Management Committee for final approval.

10.50 - 11.17 am
09 May 2018

CHAIRMAN

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 6 FEB 2019

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2018-19

INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

1. To provide a summary of Leicestershire County Council Internal Audit Service's (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 (the Plan). Variations to the Plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.
4. The 2018/19 Plan was approved by Management Committee on 28 February 2018. The detailed plan is included at **Appendix 1** and progress against these audits is shown in more detail in **Appendix 2**.

Summary of Progress

Audit Opinion:

5. 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. 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.

High Importance Recommendations

6. There have not been any high importance audits from our 2018/19 coverage to date. Follow up of one of the 17/18 high importance recommendations in respect of data protection has resulted in the assurance being lifted to substantial. There is however one other piece of work in respect of the MStar contract whereby a high importance recommendation has not been fully addressed although significant improvement has been made. This will be further explained in a verbal update to this Subcommittee by the Director, with a written update being made to in the Directors Progress report to the Management Committee on 27 Feb 2019.

2018/19 Progress to date

7. A summary of audits completed to at least draft report stage is: -
 - a. 2017/18 year audits reports – 5 (*All complete, 4 substantial assurance and one full assurance*)
 - b. Current year finalised audit reports – 6
 - c. Current year draft reports – 2
 - d. Current year on going advisory/consulting work – 2
 - e. Current year work in progress – 6
 - f. Current year jobs not started - 2

8. Appendix 2 summarises progress against the 2018-19 plan 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.

Recommendation

9. That the contents of the report be noted.

Equal Opportunities Implications

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

Background Paper

Report to ESPO Management Committee 28 February 2018 – Annual Internal Audit Plan 2018/19

Officer to Contact

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Leicestershire County Council

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Appendices

Appendix 1 - ESPO Management Committee 28 February 2018 approved Annual Internal Audit Plan 2018/19

Appendix 2 – Summary progress against 2018-19 audits as at 23 January 2018

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<u>Control env't component</u>	<u>Entity</u>	<u>The indicative audit objective is to ensure that...</u>
Various	Continuation of work commenced in 2017-18	To be completed
Governance	Annual Governance Statement	Management self-assessments of assurance in the 2017-18 AGS were founded and conformance to the revised CIPFA framework is planned and demonstrated
Governance	Limited Company	Key Risks are effectively identified and managed - likely to focus on either business being processed through the correct operations (ESPO Limited not ESPO) and/or work undertaken by ESPO is in accordance with the articles
Governance	People Management	Likely to include topic(s) as follows: succession planning (e.g. re drivers), brexit considerations (for example warehouse staff), staff retention & attraction (particularly IT) and business continuity e.g. through industrial action, widespread sickness etc
Governance	Performance Reporting - Balanced Scorecard	Balanced scorecard is linked to the key objectives of the operation and is accurately reported
Risk management	Business Growth	To incorporate the management of risk in any acquisitions
Risk management	Business Continuity	Gap analysis has been addressed and then business continuity arrangements have been planned, communicated and are tested in accordance with the external consultant report
Risk management	Counter Fraud - NFI specific	Co-ordination of reports (for October 18) Interpretation and investigation of outputs (Jan 19 onwards)
Risk management	Counter Fraud	Specific area(s) of counter fraud will be addressed - likely to include controls in relation to serious and organised crime and/or risk mitigation in respect of cyber crime.
Risk management	Energy Billing	Migration of all supplies onto a single system & decommissioning and archiving of GEMS (work intended to be completed by June 2018)
Risk management	Supply Chain Management	Factors potentially affecting the supply chain are promptly identified and mitigated - to include Brexit considerations
Risk Management	IT Developments	Key Risks and issues are effectively identified and managed - specific project(s) to be agreed but may include payables scanning solution, new website and e-commerce
Internal Control	Supply Chain & Ops Productivity Plan	A plan has been produced, communicated and implemented in a timely manner (note this plan replaces the warehouse automation project and therefore is subject to this project being formally cancelled at management committee)
Internal control	General Financial Systems (*)	To discuss with the External Auditor and Assistant Director (Finance), but typical coverage includes reconciliations; receivables; payables; payroll and stock
Internal control	IT general controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.
Internal control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated
Internal control	Managed services for temporary agency resources	Contractual requirements are adhered to by the Managed Service Providers - to ensure the high importance recommendations in the 2017/18 report have been addressed
Internal control	Servicing authority	The servicing authority is providing service in line with the agreement - likely to focus on revisions to the scheduled (SLA's)
	Contingency	Unforeseen events
	Client management	Planning & research; progress meetings; servicing Committees; HoIAS requirements; confirming implementation of HI recommendations; External Audit liaison; advice
		Total days = 175
(*) Annual audits undertaken to assist the External Auditors to form an opinion that ESPO's financial accounts are not materially mis-stated		

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Summary progress against 2018-19 audits as at 23 Jan 2019

Audits 'completed' to at least draft issued stage and/or on-going advisory work/Prior year jobs

<u>Ref¹</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 23rd Jan 2019</u>
19-A	N/A	Complete 2017-2018 Audits	N/A	<p>Key ICT Controls – Final Report (Substantial Assurance)</p> <p>Key Financials – Final Report (Substantial Assurance)</p> <p>Risk Management – Final Report (Substantial Assurance *1)</p> <p>Counter Fraud – Final Report (Substantial Assurance)</p> <p>Supply Chain Management – Final report issued – Full Assurance (see also 19-K)</p> <p>*1 = * Note: The opinion above is specifically related to the follow up of the implementation of the recommendations in the previous Internal Audit Report (issued in July 2017)</p>
19-B	GO	Annual Governance	Management self-assessments of assurance in the 2017-18 AGS were founded and conformance to the revised CIPFA framework is planned and demonstrated	Final report issued – Substantial assurance
19-E	GO	Performance Reporting - Balanced Scorecard	Balanced scorecard is linked to the key objectives of the operation and is accurately	Draft Report issued

			reported	
19-G	RM	Business Continuity	Gap analysis has been addressed and then business continuity arrangements have been planned, communicated and are tested in accordance with the external consultant report	Final report issued – Substantial assurance
19-H	RM	Counter Fraud – NFI Specific	Co-ordination of reports (for October 18) Interpretation and investigation of outputs (Jan 19 onwards)	<ul style="list-style-type: none"> • Required data sets (reports) were produced and issued to the Cabinet Office in adherence with the October deadline • The next stage is the receipt and subsequent issue of matches/potential matches in Jan 2019 onwards – reports to be released on 31 Jan 2019.
19-I	RM	Counter Fraud	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity	Draft Report issued
19-J	RM	Energy Billing	Migration of all supplies onto a single system & decommissioning and archiving of GEMS	Final report issued – Substantial assurance
19-K	RM	Supply Chain Management	Focussed on contract compliance for MStar Managed Service Provider	Final Report issued – Full Assurance
19-L	RM	IT Developments	Key Risks and issues are effectively identified and managed - specific project(s) to be agreed but may include payables scanning solution, new website and e-commerce	Advisory work completed in respect of website development
19-N	IC	General Financial Systems (*)	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger and control weaknesses previously identified have been appropriately addressed.	Final report issued – Substantial assurance

19-S	IC	Follow up – High Importance Recommendation – Data Protection	Key areas of compliance as stipulated by the Information Commissioners Office (ICO) are being adhered to corporately and within departments. - to ensure the high importance recommendations in the 2017/18 report have been addressed	Final report issued – Substantial assurance
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Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 23rd Jan 2019</u>
19-D	GO	People Management	To provide assurance to management that risks and issues have been adequately addressed in the following areas: <ul style="list-style-type: none"> • Succession Planning • Staff Retention and Attraction (including any associated service reviews) • Business Continuity (including Brexit considerations, Industrial Action, Widespread Sickness etc.) 	Draft report being compiled
19-M	IC	Supply Chain and Operations Productivity Plan	A plan has been produced, communicated and implemented in a timely manner (note this plan replaces the warehouse automation project and therefore is subject to this project being formally cancelled at management committee)	Work in progress
19-O	IC	IT General Controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	Work in progress – Testing nearing completion.
19-P	IC	Rebates Income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	Scoping taking place

19-Q	IC	Follow up – High Importance Recommendation - Managed services for temporary agency resources	Contractual requirements are adhered to by the Managed Service Providers - to ensure the high importance recommendations in the 2017/18 report have been addressed	Work completed – High Importance Recommendations not fully addressed – This will be further explained in a verbal update to this Committee by the Director, with a written update being made to in the Directors Progress report to the Management Committee on 27 Feb 2019.
19-R	IC	Servicing Authority	The servicing authority is providing service in line with the agreement – focuses on revisions to the scheduled (SLA's)	Work in progress

Audits not started

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 23rd Jan 2019</u>
18-C	GO	Limited Company	Key Risks are effectively identified and managed - likely to focus on either business being processed through the correct operations (ESPO Limited not ESPO) and/or work undertaken by ESPO is in accordance with the articles	Can only be undertaken in final two months of the year due to sample period needed in order to provide a value added piece of work. Scoping currently being agreed
19-F	RM	Business Growth	To incorporate the management of risk in any acquisitions	Can only be undertaken in final two months of the year due to sample period needed in order to provide a value added piece of work. Scoping currently being agreed

¹unique reference numbers based on the financial year in question (i.e. '19' relates to 2018-19), in the sequence of the approved internal audit plan

²the three elements of the control environment (governance, risk management and internal control)

³traditionally audits where the external auditor has placed reliance on the work of internal audit

⁴additionally commissioned piece of work

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

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