



Date: 4 February 2020
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, 12 February 2020 at 10.30am in the Gartree Committee Room, County Hall, Glenfield.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Pages</u>
1. Election of Chairman.	
2. Minutes of the meeting held on 8 May 2019.	(Pages 3 - 6)
3. Declarations of interest in respect of items on the agenda.	
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	
5. Internal Audit Service - Progress Against the 2019-20 Internal Audit Plan.	(Pages 7 - 14)



6. Annual Internal Audit Plan 2020-21. (Pages 15 - 20)

7. Date of next meeting.

The next meeting is scheduled to take place on 20 May 2020 at 10.30am as a Skype Meeting.

8. Exclusion of the Press and Public.

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

9. Forecast Outturn 2019/20 and Draft MTFS 2020/21 - 2023/24. (Pages 21 - 22)

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



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield on Wednesday, 8 May 2019.

PRESENT

Cllr. S. Rawlins - Lincolnshire County Council (in the Chair)

Dr. K. Feltham

Cllr. M. Howell (On-Line)

Cllr. D. Seaton (On-Line)

Leicestershire County Council

Cambridgeshire County Council

Peterborough City Council

64. Minutes.

The minutes of the meeting held on 6th February 2019 were taken as read, confirmed and signed.

65. 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.

66. Urgent Items.

There were no urgent items for consideration.

67. Exclusion of the public.

RESOLVED:

That under Section 100(A) 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 the 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) Draft Outturn 2018/19
- ii) Internal Audit Service – Progress Against the 2018-19 Internal Audit Plan
- iii) Internal Audit Service Annual Report 2018/19
- iv) Annual Internal Audit Plan 2019-20

68. Draft Outturn 2018/19

Members considered an exempt report of the Director and Consortium Treasurer outlining the draft Outturn for 2018/19. 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).

Arising from the discussion the following points were noted:-

- i) Members were pleased to note the strong position ESPO were in after another record year having already reached the 2020 target of a five million pound surplus.
- ii) The surplus target for 2019/20 was set at five million pounds, it was intended to review this target after the peak trading period.
- iii) The increase in staff costs compared to the prior year reflected both the increasing staff numbers and the Local Government Pay Offer increase of 1%. It was expected that the next year's pay review would cost ESPO a further £700,000.
- iv) The £400,000 set aside yearly for Building Reserves was intended for future replacements for buildings at end of life. Officers were aware of the national issue regarding improvement in premises and the subsequent increase in business rates.
- v) Seven forklift trucks and eight Large Good Vehicles (LGV's) had been purchased as part of the Capital Programme. The old forklifts had been taken away for free as they had no scrap value whereas the LGV's were sold in auction and ESPO would receive the market value
- vi) Total Rebates were £800,000 ahead of budget due to the strong performance of ESPO's Frameworks and the introduction of an IT Database which enabled more effective enforcement of supplier payment.

RESOLVED:

- a) That the draft outturn for 2018/19 be noted and that £400,000 be allocated to Building Reserves in line with previous years.
- b) That the Management Committee be recommended to allow £300,000 from the surplus to support the development of the ESPO Website Project.
- c) That the Capital Programme expenditure be noted.

69. Internal Audit Service - Progress Against The 2018-19 Internal Audit Plan

Members received a report of the Consortium Treasurer outlining the progress against the 2018/19 Internal Audit Plan. A copy of the report, marked 'Agenda Item 6' is filed with these minutes.

The 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 noted that the 2017/18 high importance recommendations which related to a data protection audit and the MStar contract both now had a substantial level of

assurance and had been closed. To date no high importance audits from the 2018/19 audits had been identified.

Members recognised the transparency and flexibility of the Leadership team with the Internal Audit service.

RESOLVED:

The Subcommittee noted the contents of the report outlining the progress against the Internal Audit Plan.

70. Internal Audit Service Annual Report 2018/19.

Members received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report 2018/19. 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 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 public sector internal audit standards' which was considered the top rating.

A paper would be received at the next Management Committee on Future Growth and would detail a pipeline of ideas to grow the business and set out the risk and reward of each option.

RESOLVED:

That the Internal Audit Service Annual report be noted and the Management Committee be advised accordingly.

71. Annual Internal Audit Plan 2019-20.

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Plan for 2019/20. 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 business affairs of a particular person (including the authority holding that information).

Arising from the discussion the following points were noted:-

- a) It was important that the Head of the Internal Audit Service attended the Management Committee and Finance and Audit Subcommittee meetings in order to gauge the challenge provided by Members.
- b) The IT rolling programme covered Website Development and other IT developments. The yearly plan was risk assessed by Internal Audit and a programme of work would subsequently be agreed with ESPO's Head of IT. There was some flexibility to undertake additional work in year.

RESOLVED:

That the contents of the Internal Audit Plan for 2019/20 be approved and the Management Committee advised accordingly.

72. Date of next meeting.

RESOLVED:

It was noted that the next meetings of the Subcommittee would take place in early 2020.

CHAIRMAN

08 May 2019



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 12 FEBRUARY 2020

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2019-20

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 2019/20 Plan was approved by Management Committee on 19 June 2019. The scope of the audits and progress against them is shown in the **Appendix**.

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.

6. Consulting/advisory audits do not result in an opinion but are taken into account in the HoIAS annual opinion.

High Importance Recommendations

7. There have not been any high importance audits from our 2019/20 coverage to date.

Virement:

8. One job will not be required in respect of Business Growth (Ref 20-06) due to no further business acquisitions taking place during the year. More coverage has been and will continue to be needed in respect of the Website Project and therefore this may require a virement from this job and contingency.

2019/20 Progress to date

9. A summary of progress is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed work/on-going consultancy work	7	1 x Prior Year 1 x Substantial Assurance 2 x Draft Reports i.e. Opinion TBC 3 x Consultancy	20-01 20-02 20-14 & 20-15 20-07, 20-10 & 20-12
Work in progress	10	N/A	Jobs 20-03, 20-04, 20-05, 20-08, 20-9, 20-11, 20-13, 20-16, 20-17, 20-18
Cancelled Job	1	N/A	Jobs 20-06

10. Of the 10 jobs that are currently work in progress, 7 are required to be undertaken in the final quarter for various reasons and one has been put on hold pending the results of a Data Protection Business Impact Assessment required prior to completing the work. With this in mind, a further two jobs that were originally intended for quarter 4 were brought forward and have been completed to draft (Jobs 20-14 & 20-15).
11. The Appendix summarises progress against the 2019-20 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

12. That the contents of the report be noted.

Equal Opportunities Implications

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

Background Paper

Report to ESPO Management Committee 19 June 2019 – Annual Internal Audit Plan 2019/20

Officer to Contact

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Appendices

Appendix - Summary progress against 2019-20 audits as at 31 January 2020

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Summary progress against 2019-20 audits as at January 2020

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 @ January 2020</u>
20-01	N/A	Complete 2018-2019 Audits	N/A	<p>Limited Company – To be completed within Job 20-03</p> <p>People Management – Complete Advisory</p> <p>Business Growth – Covered within Job 20-11</p>
20-02	GO	Annual Governance	Management self-assessments of assurance in the 2018-19 AGS were founded and conformance to the CIPFA framework is planned and demonstrated	<u>Final report issued</u> – Substantial assurance
20-07	RM	Counter Fraud - NFI Specific	Results are correctly interpretation and investigated	Consultancy complete – Work concluded that no instances of fraudulent activity were noted from the work undertaken and investigations made.
20-10	RM	Website Development	Key Risks and issues are effectively identified and managed	On-going consultancy – two focusses: Governance & Risk Management – through Project Board Membership & Operational Controls/Risks/Issues through ICT Auditor coverage
20-12	RM	IT Developments	Key Risks and issues are effectively identified and managed	On-going consultancy
20-14	IC	General Financial Systems (*)	Reconciliations and processes are undertaken to facilitate the accuracy and completeness of	Draft Issued

			the general ledger and any control weaknesses previously identified have been appropriately addressed.	
20-15	IC	IT General Controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	Draft Issued

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ January 2020</u>
20-03	RM	Limited Company	Key Risks to consortium members are effectively identified, communicated and managed	Work in progress
20-04	IC	Catalogue Pricing and Production	Adequate governance arrangements are in place to ensure pricing and subsequent production of ESPO catalogues adheres to deadlines	Work in progress Note: Catalogue timetables mean this work is completed in quarter 4
20-05	RM	Health & Safety	Adequate health and safety governance arrangement are in place to mitigate potential claims and fines	Work in progress
20-08	RM	Counter Fraud – Fit Notes	To authenticate the validity of fit notes issued (sample counter fraud area chosen)	Work currently on hold pending successful completion of a Data Protection Impact Assessment
20-09	RM	Supply Chain Management	Initiatives to achieve cost savings in ESPO's operations and supply chain area are adequately managed to ensure that defined benefits are realised (covers outsourcing, annualised hours and staff reduction).	Work in progress – required to be undertaken in Quarter 4
20-11	RM	Business Growth	Areas of commercial direction to achieve MTFs targets are adequately managed (to address relevant area(s) from the ten commercial initiatives that have been previous defined	Work in progress – required to be undertaken in Quarter 4

20-13	IC	Supply Chain & Ops Productivity Plan	Areas of the plan due to materialise in 19/20 are implemented in a timely manner	Work in progress – required to be undertaken in Quarter 4
20-16	IC	Rebates Income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits.	Work in progress – required to be undertaken in Quarter 4
20-17	IC	Managed services for temporary agency resources	Contractual requirements of Mstar3 are adhered to by the Managed Service Providers (MSP's) - to incorporate site visits to MSP's	Work in progress – required to be undertaken in Quarter 4
20-18	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Work in progress – required to be undertaken in Quarter 4

Cancelled Jobs

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ January 2020</u>
20-06	RM	Business Growth	Risk is managed in any further acquisitions	Cancelled job – no further acquisitions (time used for more in-depth coverage of job 20-10 Website Development)

¹unique reference numbers based on the financial year in question (i.e. '20' relates to 2019-20), 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



ESPO FINANCE & AUDIT SUBCOMMITTEE – 12 FEBRUARY 2020

REPORT OF THE CONSORTIUM TREASURER

ANNUAL INTERNAL AUDIT PLAN 2020-21

Purpose of Report

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2020-21.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to the Public Sector Internal Audit Standards (the PSIAS) which were last revised in April 2017.
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of ESPO's control environment (its framework of governance, risk management and control). In order to form an opinion, the scope of internal audit work needs to be wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
5. The HoIAS' opinion helps to inform either the traditional Annual Governance Statement (a requirement under the Accounts and Audit Regulations 2015, which apply to the Member Authorities comprising ESPO), or any alternative report following ESPO's adoption of International Financial Reporting Standards (IFRS).
6. The Finance & Audit Subcommittee (the Subcommittee) is responsible for receiving and reviewing audit and governance reports and it acts as 'the Board' for PSIAS purposes. However, the Management Committee, having overall strategic responsibility for the management oversight and direction of, and being the sole decision maker for ESPO, should approve the annual internal audit

plan and regular progress reports against it. The plan will need to be approved by Management Committee at its meeting on 4 March 2020.

Planning methodology

7. The Director of ESPO and the Leadership Team identify and manage risk and where it is required, design, implement and operate robust internal control systems. Targeted internal audits have identified continuing improvements to governance and risk management at ESPO, so to ensure that current and emerging risks are adequately covered the audit plan is aligned with the Corporate Risk Register, the Business Strategy and the Annual Governance Statement.
8. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the Director and the Leadership Team and the Consortium Treasurer and Secretary. The incoming External Auditor will be consulted.
 - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - c. Identification and evaluation of the robustness of other forms of assurance received
 - d. Comparisons against similar purchasing consortia audit plans.
 - e. 'Horizon scanning' new and emerging risks from professional and industry sources
 - f. The risks to critical 'business as usual' systems when focus shifts elsewhere
9. Part of the plan requires annual audits on key elements of the financial and IT systems. These audits are undertaken in consultation with ESPO's External Auditors to assist in their planning of their annual audit to form an opinion that ESPO's financial accounts are not materially misstated. In the past, the External Auditor has determined that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment.
10. Any other significant projects for example ICT or Business Growth developments would be targeted for audit. GDPR compliance will be covered as part of Leicestershire County Council's audit but any findings of relevance will be reported to ESPO members. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations. An allocation is reserved for the HoIAS' role in governance requirements (attendance at committees,

form opinions and reports etc) and progressing any high importance recommendations.

The internal audit plan 2020-21

11. The attached plan for 2020-21 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment. The overall scope of the plan is comparable to a competitor of ESPO.
12. A small amount of resource will be required to finalise 2019-20 audits.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2020-21 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be stressed that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in ESPO's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree any material changes with the Director of ESPO and Consortium Treasurer and these would be reported to the Management Committee.
15. Detailed Terms of Engagement covering each audit's scope, timing and any areas for exclusion are agreed with the relevant risk owners (Assistant Director) in advance of each audit.

Progressing the Audit Plan

16. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
17. On completion of each audit, findings will be discussed with the appropriate risk owner before issuing a report to the Director and the Treasurer. The opinions reached, along with summary findings are reported each quarter to the Director and the Treasurer and will be reported more formally to the Finance and Audit Subcommittee at its scheduled meetings, with any urgent matters in the interim periods being brought to the attention of the Management Committee.
18. If any audit produces a 'high importance' recommendation, then the full report would be shared with the Subcommittee and/or

Management Committee dependent on timing, and specific re-testing is undertaken later in the year to prove that control has actually improved and is embedded.

Resource Implications

19. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. The 2020-21 plan has been agreed on an indicative 150 days. This level of coverage should enable the HoIAS to provide overall reasonable assurance to the Consortium Treasurer the risks that ESPO is facing are being managed.

Conclusion

20. The detail of the 2020-21 internal audit plan is attached in the Appendix to this report. The plan has been presented to the Consortium Treasurer, Consortium Secretary and the Director of ESPO for comments and approval.

Recommendation

21. The Sub Committee is requested to:
- a) Support the methodology used as a basis for developing the internal audit plan;
 - b) Note the ESPO Internal Audit Plan for 2020-21 and advise the Management Committee accordingly.

Equal Opportunities Implications

At this stage there are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

Background Papers

None.

Officer to Contact

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Appendices

Appendix - ESPO Internal Audit Plan 2020-21

<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 2019-20	To complete any outstanding audits
Governance	Annual Governance Statement 2019-20	Review of the management self assessments of assurance in the 2019-20 AGS
Governance	Transition to International Financial Reporting Standards (IFRS)	Preparedness for the movement from CIPFA to IFRS 102 to include governance related reports supporting the financial statements
Governance	Transition from EU	Preparedness for potential supply chain issues and workforce issues
Governance	Frameworks	Developing any new offerings
Governance	Business growth - Strategic alliance(s)	Business case development, review and approval
Risk Management	Warehouse	Review of the capital investment decision process
Risk Management	Credit control	Review of credit control arrangements especially with export and private sector and due diligence routines
Risk management	Counter Fraud - NFI specific	Results are correctly interpretation and investigated
Risk management	Counter Fraud - procurement	Specific area(s) of potential fraud are addressed
Risk Management	Website Development	Key risks and issues are effectively identified and managed - project governance and assurance on user testing and training
Risk Management	IT Developments	Replacing e-mail servers into the cloud; future delivery methods
Risk Management	Emerging risks	ESPO identification and prepraedness for any emerging risks e.g. climate change requirements
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 - focus will be on site visits
Internal control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to
Internal control	Overseas travel	Post event reviews
	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - may include business growth; new legislative
	Client management	Planning & research; progress meetings; servicing Committees; HoIAS requirements; confirming implementation of HI recommendations; External Audit liaison; advice
		Total days = 150
		(*) 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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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

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