



Date: 12 May 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, 20 May 2020 at 10.30 am via Microsoft Teams.

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 12 February 2020.	(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.	Head of Internal Audit Service Annual Report 2019-20.	(Pages 7 - 26)
5.	Close Down of 2019-20 and Progress Against the 2020-21 Internal Audit Plans.	(Pages 27 - 40)
6.	Date of next meeting.	

The next meeting of the Subcommittee will take place in early 2021 and will be confirmed nearer to the time.



7. Exclusion of the Press and 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. Draft Outturn 2019/20. (Pages 41 - 54)
9. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Wednesday, 12 February 2020.

PRESENT

Cambridgeshire County Council

Cllr. M. Howell

Leicestershire County Council

Dr. K. Feltham CC

Warwickshire County Council

Cllr. P. Butlin

Apologies

Apologies were received from Cllr. S. Rawlins (Lincolnshire County Council), Cllr S. Clancy (Norfolk County Council) and Cllr. D. Seaton (Peterborough City Council).

In attendance

ESPO

Mr. K. Smith – Director

Mr. D. Godsell - Assistant Director

Mr. C. Pitt – Assistant Director

Leicestershire County Council/ Secretariat

Mr. N. Wash – Head of Service Finance, on behalf of the Consortium Treasurer.

Mr. N. Jones – Head of Internal Audit and Assurance

Mr. M. Davis – Audit Manager

Mr. M. Seedat – Head of Democratic Services

Ms. C. Tuohy – Democratic Services Officer

73. Election of Chairman.

Cllr. M. Howell was appointed Chairman for the municipal year ending May 2020.

Cllr. M. Howell in the Chair.

74. Minutes.

The minutes of the meeting held on 8 May 2019 were taken as read, confirmed and signed.

75. 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.

76. Urgent Items.

There were no urgent items for consideration.

77. Internal Audit Service - Progress Against the 2019-20 Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the Internal audit Plan for 2019-20. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

RESOLVED:

That the report and information now provided be noted.

78. Annual Internal Audit Plan 2020-21.

The Subcommittee received a report of the Consortium Treasurer on the Annual Internal Audit Plan 2020-21. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The Subcommittee was informed that the ESPO Senior Management Team met regularly with the Consortium Treasurer and the Head of Internal Audit at Leicestershire County Council to review the findings of audits Any high assurance recommendations found would be shared with Members.

As part of the Internal Audit plan the team would visit ESPO suppliers as set out in supplier contracts, those chosen would either be due to high contract value or at ESPO's suggestion. Any issues found would be shared with all suppliers where relevant.

RESOLVED:

- a) That the Annual Internal Audit Plan 2020-21 be agreed;
- b) That the Management Committee be advised of the decision of the Subcommittee.

79. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 20 May 2020 at 10.30am as a virtual meeting.

80. Exclusion of the Press and Public.

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 remaining items of business.

81. Forecast Outturn 2019/20 and Draft MTFs 2020/21 - 2023/24.

The Subcommittee received an exempt report of the Director and Consortium Treasurer outlining the forecast outturn 2019/20 and the draft MTFs 2020/21 – 2023/24. A copy of the 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).

Arising from discussion the following points were noted:

- i) ESPO was on target to achieve the projected surplus despite the increased pressures in the market which presented significant challenges for the foreseeable future.
- ii) Leicestershire County Council provided human resources advice to ESPO to enable them to recruit and retain staff in high demand areas such as procurement.
- iii) The pension deficit figure for ESPO was a result of a highly prudent actuarial assumption. The deficit was lower in the real terms as a result of better than expected performance of the Leicestershire Pension Fund's investments.
- iv) The Website project remained on track to go live in November 2020 and would be demonstrated at a future ESPO Management Committee meeting.
- v) All of ESPO's vehicle fleet was now under two years old. Each year a provision was made in accounts to replace vehicles on a need basis. There remained little innovation in the electric HGV market due to the payload of electric batteries.
- vi) The reference to High Bay racking related to storage and was a dormant area in the warehouse. Automation within areas of the warehouse would be looked at where feasible.

RESOLVED:

- a) The projected surplus 2020/21 be noted;
- b) That the draft MTFS for the period 2019 to 2023 be agreed;
- c) That projected provisional revenue budgets for 2021/22, 2022/23 and 2023/24 as set out in paragraph 21 of the report be agreed;
- d) That the proposed Capital programme for 2019-2020 as set out in paragraph 43 to 45 of the report be agreed;
- d) That the Management Committee be advised of the decision of the Subcommittee.

Times Not Specified
12 February 2020

CHAIRMAN

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 20 MAY 2020

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2019-20

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Finance and Audit Subcommittee (the Subcommittee) with an annual report on internal audit work conducted during 2019-20.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS) to provide internal audit for ESPO.
3. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provide at section 5 'Internal Audit' that, 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
4. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) which were last updated in April 2017. Guidance on applying the standards is provided in an accompanying CIPFA Local Government Application Note which was last updated in 2019.
5. The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Internal Audit Charter for ESPO (re-approved by Management Committee 28 February 2017) defines the Finance & Audit Subcommittee (the Subcommittee) as 'the Board'. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the production of the draft Annual Governance Statement (AGS) which will be reported to Management Committee at its meeting scheduled 16 September 2020.
6. However, the Subcommittee does not have any decision-making authority, and so the HoIAS' annual report will need to be approved by Management Committee at its meeting on 24 June 2020.

7. The PSIAS require the HoIAS' annual report to include:
- a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work actually undertaken with the work that was planned, including a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) – **note:** this will be undertaken in time to be reported to the Management Committee on 24 June 2020
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

Internal Audit Service Annual Report 2019-20

8. The annual report for 2019-20 is provided in the Appendix.
9. Headlines from the report are: -
- a. Overall, positive opinions were given in all three components of the 'control environment' i.e. the framework of governance, risk management and control (Annex 1)
 - b. Work will continue with reviewing alternative financial and ICT systems remote delivery implemented to respond to the coronavirus
 - c. The majority of planned work was achieved
 - d. The HoIAS considers ESPO's response to the coronavirus pandemic will be relevant to the preparation of the AGS

Resources Implications

10. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
11. 170 of the planned 175 days was achieved. The total charge to ESPO was £51,625.

Recommendations

That the Finance and Audit Subcommittee notes the Internal Audit Service annual report for 2019-20 and advises the Management Committee accordingly.

Equal Opportunities Implications

12. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Background Papers

Constitution of the ESPO Management Committee
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
Annual Internal Audit Plan 2019-20

Officer to Contact

Neil Jones
Head of Internal Audit & Assurance Service

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Appendices

- Appendix Internal Audit Service Annual Report 2019-20
- Annex 1 The HoIAS Annual Opinion on the overall adequacy and effectiveness of ESPO's control environment
- Annex 2 Summary of Internal Audit Service work 1 April 2019 to 8 May 2020 from which the overall opinion is derived

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ESPO

Leicestershire County Council Internal Audit Service Annual Report 2019-20

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

8th May 2020

ESPO
LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE
ANNUAL REPORT 2019-20

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised in April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing

2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.

3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning

4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (the Finance & Audit Subcommittee) timed to support the Annual Governance Statement (AGS). Management Committee approves the annual report.

5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned, including a summary of the performance of the internal audit function against its performance measures and targets

- d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
- e. any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of ESPO's Control Environment

- 6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the types of audits undertaken the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
- 7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions have been reached:-
 - a. Governance related audits

Nothing of significance, adverse nature or character has come to the attention of the HoIAS. As such **reasonable assurance** is given that ESPO's governance arrangements are robust.
 - b. Risk management related audits

Management has displayed a robust attitude to risk and accepted internal audit recommendations which further mitigate risk; therefore **reasonable assurance** is given that risk is managed
 - c. Financial and ICT Control related audits

Notwithstanding the two incomplete audits, **reasonable assurance** can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs
- 8. Due to the fast escalating impact of the coronavirus, starting in March ESPO management very quickly designed and installed alternative ways of working with its financial and ICT systems which could have internal control and risk implications for the overall control environment. LCCIAS will review the arrangements to ensure the alternative methods retain robust controls.

A summary of the audit work from which the opinion is derived

9. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.
10. Nine 'assurance' type (see definitions) audits were undertaken. Based on the answers provided during the audits and the testing undertaken, they each returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they were not significant. Whilst four remained in draft report form at the time of this statement, I do not envisage management will dispute their likely substantial assurance opinions
11. A further four audits remain work in progress at the time of this statement, two of which will be substantial assurance. The remaining two were not able to be concluded due to the impact of covid-19 on workplaces.
12. Five audits returning 'no opinion' were 'consulting' type audits (see definitions).
13. Whilst reaction from management has been positive throughout, we do not yet have the responses to customer satisfaction questionnaires issued. This will be rectified in time for the Management Committee meeting on 24 June 2020.
14. During 2019-20, the outputs from ESPO voluntarily submitting its payroll and creditors data into the 'National Fraud Initiative' (a nationwide counter-fraud data-matching exercise) were examined. Work concluded that no instances of fraudulent activity were noted from the work undertaken and investigations made.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.
16. Other than since the 23 March 2020 when the Government enforced lockdown because of covid-19, there were no known impairments or restrictions to internal audit's scope.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

17. The table below shows planned against actual performance both in terms of number of audits (completed to draft issued stage) and days allocated.

Table 1 : Overall performance against 2019-20 internal audit plan

	<u>Audits</u>	<u>Complete @ 8/5</u>	<u>Incomplete @ 8/5</u>	<u>Cancelled</u>	<u>Days</u>
Close 18-19	3	3	-	-	15
Follow up HI recs	-	-	-	-	-
Planned	17	12	4	1	130
Unplanned	-	-	-	-	-
Client management	-	-	-	-	25
Total	20	12	4	1	170

18. Some resource has already been utilised in 2020-21 completing 2019-20 audits.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

19. Because of the unplanned impact of managing responses to the covid-19 crisis, the HoIAS has not been able to undertake the annual self-assessment of LCCIAS's conformance to the PSIAS nor reviewed the service's Quality Assurance and Improvement Programme (QAIP) and updated it for further actions required.
20. The HoIAS does not envisage any material changes to either, but the review will take place in time to report the outcomes to Management Committee on 24 June 2020.

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

21. The HoIAS considers ESPO's actions and future plans and potential impacts caused by the ongoing coronavirus pandemic will need to be considered during the preparation of the AGS.
22. A 'governance group' comprising the Director of ESPO, Assistant Director (Finance) of ESPO; the Consortium Treasurer, the Consortium Secretary, the Council's Democratic Services Officer and the HoIAS will review the draft AGS before it is presented to Management Committee in September.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

8th May 2020.



**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2019-20**

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

8th May 2020

Background

During the financial year 2019-20, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit activity to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS conforms to the Public Sector Internal Audit Standards (the PSIAS) revised with effect from April 2017. The PSIAS require the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definitions of the types of audits undertaken and of the control environment are to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is for a specific time interval i.e. 2019-20 and combines: -

- an objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed, are formed by applying systematic grading to remove any elements of subjectivity. The results of audits undertaken during 2019-20 are reported in **Annex 2**
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the opinion on ESPO's control environment. However, the caveat at the very end of this document explains what internal control cannot do. i.e., no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of an audit of Annual Governance Statement compilation and observation of the project governance arrangements for the new website development.

The HoIAS and the designated Audit Manager attend the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand.

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

The HoIAS is part of a group comprising the ESPO Director, the Assistant Director Finance, the Consortium Treasurer, and Consortium Secretary which review the content of the draft Annual Governance Statement.

HoIAS opinion: - Nothing of significance, adverse nature or character has come to the attention of the HoIAS. As such **reasonable assurance** is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

Audits of the limited company risk evaluation, counter fraud, supply chain management, business growth, IT developments and health and safety, returned positive assurances.

The HoIAS monitors members engagement with ESPO's risk registers through Management Committee meetings.

HolIAS opinion: Management has displayed a robust attitude to risk and accepted internal audit recommendations which further mitigate risk; therefore **reasonable assurance** is given that risk is managed

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken including those of ESPO's IT and general financial systems controls, Supply Chain and Operations Productivity Plan and the catalogue pricing routine. Findings were not of such seriousness as to suggest any fundamental weakness.

For the National Fraud Initiative exercise no instances of fraudulent activity were noted.

Two financial controls related audits (rebates income and servicing authority responsibilities) could not be completed because they would have required site visits and this was not possible with the immediate impact on workplaces of the covid-19 virus and as such opinions on the audits haven't been reached.

HolIAS opinion: Notwithstanding the two incomplete audits, **reasonable assurance** can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs

Planning for and managing the impact of the coronavirus

It is the HoIAS' opinion that the Director of ESPO demonstrated good governance and risk management when he first outlined plans for identifying risks and managing the impact of the coronavirus to Management Committee on 4 March 2020 and added a risk to the ESPO Corporate Risk Register. There were further updates informing Management Committee of plans and actions towards the end of March. However, the speed of escalation and lockdown instructions required ESPO management to very quickly design and install alternative ways of working with its financial and ICT systems which could have internal control and risk implications for the overall control environment. These were reported in summary to Chief Officers Group on 29 April. We will review the arrangements to ensure alternative methods retain robust controls.

Planning for and responding to the virus crisis, planning recovery, lessons learned and future impacts are likely to be reflected in the Annual Governance Statement.

8th May 2020

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

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

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.

Consulting audit

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. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Continued.....

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

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Summary of work undertaken supporting the HoIAS opinion 2019-20

<u>Ref¹</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 8th May 2020</u>
20-01	N/A	Complete 2018-2019 Audits	N/A	Limited Company – Completed Advisory People Management – Complete Advisory Business Growth – Covered within Job 20-11
20-02	GO	Annual Governance Statement	Management self-assessments of assurance in the 2018-19 AGS were founded and conformance to the CIPFA framework is planned and demonstrated	Final report issued – Substantial assurance
20-03	RM	Limited Company	Key Risks to consortium members are effectively identified, communicated and managed	Completed for 19/20. On-going work will continue into 20/21
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	Draft report issued – Substantial Assurance
20-07	RM	Counter Fraud - NFI Specific	Results are correctly interpreted and investigated	Consultancy complete
20-09	RM	Supply Chain Management – Strategic Cost Control	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).	Draft report issued – Substantial Assurance
20-10	GO/ RM	Website Development	Key Risks and issues are effectively identified and managed	Completed for 19/20 - Consultancy – two focusses:

				Governance & Risk Management – through Project Board Membership & Operational Controls/Risks/Issues through ICT Auditor coverage
20-11	RM	Business Growth – Commercial Initiatives	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	Draft report issued – Substantial Assurance
20-12	RM	IT Developments	Key Risks and issues are effectively identified and managed	Completed for 19/20 - Consultancy
20-13	IC	Supply Chain & Ops Productivity Plan	Areas of the plan due to materialise in 19/20 are implemented in a timely manner	Draft report issued – Substantial Assurance
20-14	IC	General Financial Systems (*)	Reconciliations and processes are undertaken to facilitate the accuracy and completeness of the general ledger and any control weaknesses previously identified have been appropriately addressed.	Final Report Issued – Substantial Assurance
20-15	IC	IT General Controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	Final Report Issued – Substantial Assurance
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.	Completed for 19/20 – Customer visits deferred into 20/21 due to COVID-19 site access issues.

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 8th May 2020</u>
20-05	RM	Health & Safety	Adequate h&s governance arrangement are in place to mitigate potential claims and fines	Draft report being compiled – likely to be Substantial Assurance
20-08	RM	Counter Fraud – Fit Notes	To authenticate the validity of fit notes issued (sample counter fraud area chosen)	Testing nearing completion. – likely to be Substantial Assurance Work was delayed pending successful completion of a Data Protection Impact Assessment. Testing delayed due to most fit note being stored onsite therefore hard to access due to COVID-19.
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 – Provider focussed areas of testing deferred into 20/21 due to COVID-19 customer access issues.
20-18	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Testing nearing completion – delayed due to selected business area (Health & Safety) both at Leicestershire County Council and ESPO being focussed on COVID-19 related work

Cancelled Jobs

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 8th May 2020</u>
20-06	RM	Business Growth	Risk is managed in any further acquisitions	No further acquisitions (time used for more in-depth coverage of Website Development)

¹ 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

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

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

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 20 MAY 2020

INTERNAL AUDIT SERVICE

CLOSE DOWN OF 2019-20 AND PROGRESS AGAINST THE 2020-21 INTERNAL AUDIT PLANS

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 the Management Committee on 19 June 2019 and the 2020/21 Plan was approved by the Finance and Audit Sub Committee 12 February 2020. The scope of the audits and progress against them is shown in Appendix 1 and 2 respectively.

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 or 2020/21 coverage to date.

Virement:

8. As reported previously in February, one job was not required in respect of Business Growth (Ref 20-06). This was due to no further business acquisitions taking place during the year. Additional coverage was required in respect of the Website Project and therefore this required a virement from this job and from contingency.

2019/20 Progress to closedown

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	13	1 x Prior Year	20-01
		3 x Substantial Assurance	20-02, 20-14, 20-15
		4 x Draft Reports i.e. Opinion TBC but currently no HI recommendations	20-04, 20-09, 20/11, 20/13
		3 x Consultancy	20-07, 20-10 & 20-12
		2 x On-going but completed for year	20-03, 20-16

Work in progress	4	N/A	Jobs 20-05, 20-08, 20-17, 20-18
Cancelled Job	1	N/A	Jobs 20-06

10. The four jobs still classed as work in progress have been transferred into the 2020/21 Internal Audit plan and all four were delayed either directly or indirectly due to COVID-19 reasons. Due to this, and as defined elsewhere in this report, we commenced several pieces of 2020/21 work/preparation early where such work could be undertaken remotely
11. Appendix 1 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.

2020/21 Progress to date

12. A summary of progress against the 2020/21 plan is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed work/on-going consultancy work	3	2 x On-going 1 x Consultancy	21-I & 21/K 21-E
Work in progress	9	N/A	21-A, B, C, F, H, J, N, O & R
Not started	6	N/A	21-D, G, L, M, P & Q

13. The above table demonstrates that whilst there remains work to complete from 19/20, our business continuity planning has ensured that this has been more than offset by making considerable progress with 20/21 jobs.
14. Appendix 2 summarises progress against the 2020-21 plan. Again 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

15. That the contents of the report be noted.

Equal Opportunities Implications

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

Background Papers

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

Report to ESPO Finance and Audit Sub Committee 12 February 2020 – Annual Internal Audit Plan 2020/21

Officer to Contact

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Appendices

Appendix 1 - Summary progress against 2019-20 audits as at May 2020

Appendix 2 - Summary progress against 2020-21 audits as at May 2020

Summary progress against 2019-20 audits as at May 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 @ May 2020</u>
20-01	N/A	Complete 2018-2019 Audits	N/A	Limited Company – Completed Advisory People Management – Complete Advisory Business Growth – Covered within Job 20-11
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	Final report issued – Substantial assurance
20-03	RM	Limited Company	Key Risks to consortium members are effectively identified, communicated and managed	Completed for 19/20. On-going work will continue into 20/21
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	Draft report issued <i>Note: Catalogue timetables meant this work could not be completed until quarter 4</i>
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.
20-09	RM	Supply Chain Management – Strategic Cost Control	Initiatives to achieve cost savings in ESPO's operations and supply chain area are adequately managed to ensure that defined	Draft report issued

			benefits are realised (covers outsourcing, annualised hours and staff reduction).	
20-10	RM	Website Development	Key Risks and issues are effectively identified and managed	Completed for 19/20 - Consultancy – two focusses: <ul style="list-style-type: none"> • Governance & Risk Management – through Project Board Membership • Operational Controls/Risks/Issues through ICT Auditor coverage
20-11	RM	Business Growth – Commercial Initiatives	Areas of commercial direction to achieve MTFS targets are adequately managed (to address relevant area(s) from the ten commercial initiatives that have been previously defined	Draft report issued
20-12	RM	IT Developments	Key Risks and issues are effectively identified and managed	Completed for 19/20 - Consultancy
20-13	IC	Supply Chain & Ops Productivity Plan	Areas of the plan due to materialise in 19/20 are implemented in a timely manner	Draft report issued
20-14	IC	General Financial Systems (*)	Reconciliations and processes are undertaken to facilitate the accuracy and completeness of the general ledger and any control weaknesses previously identified have been appropriately addressed.	Final Report Issued – Substantial Assurance
20-15	IC	IT General Controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	Final Report Issued – Substantial Assurance

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.	Completed for 19/20 – Customer visits deferred into 20/21 due to COVID-19 site access issues.
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Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ May 2020</u>
20-05	RM	Health & Safety	Adequate health and safety governance arrangement are in place to mitigate potential claims and fines	Draft report being compiled
20-08	RM	Counter Fraud – Fit Notes	To authenticate the validity of fit notes issued (sample counter fraud area chosen)	Testing nearing completion. <i>Work was delayed pending successful completion of a Data Protection Impact Assessment. Testing delayed due to most fit note being stored onsite therefore hard to access due to COVID-19.</i>
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 – Provider focussed areas of testing deferred into 20/21 due to COVID-19 customer access issues.
20-18	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Testing nearing completion – delayed due to selected business area (Health & Safety) both at Leicestershire County Council and ESPO having to be focussed on COVID-19 related work

Cancelled Jobs

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ May 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

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Summary progress against 2020-21 audits as at May 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 @ May 2020</u>
21-E	GO	Frameworks	Developing any new offerings	<ul style="list-style-type: none"> • Specific advisory work undertaken/continuing in respect of a framework contract that was due to expire on 31 March for which a revised tender could not be completed in time due to Covid-19. • Advisory work completed in respect of the analysis of the current ESPO Procurement Workplan for the remainder of 2020/21 to proposed a way forward following the Covid-19 related business as usual activity.
21-I	RM	Counter Fraud - NFI	Results are correctly interpretation and investigated	<ul style="list-style-type: none"> • Final terms of engagement agreed • Advice re roles and responsibilities of ESPO has been issued in order to meet September 2020 deadline for submissions'
21-K	RM	Website Development	Key risks and issues are effectively identified and managed - project governance and assurance on user testing and training	<ul style="list-style-type: none"> • Terms of engagement previously agreed • Ongoing control advice as critical friend on project board • Additionally, ad-hoc practitioner advice given by our ICT auditor

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ May 2020</u>
21-A	N/A	Continuation of work commenced in 2019-20	To complete any outstanding audits	See 19/20 report in relation to: <ul style="list-style-type: none"> • Health & Safety (20-05) • Counter Fraud - Fit Notes (20-08) • Managed services for temporary agency resources (20-17) • Servicing Authority (20-18)
21-B	GO	Annual Governance Statement 2019-20	Review of the management self-assessments of assurance in the 2019-20 AGS	<ul style="list-style-type: none"> • Draft terms of engagement issued • Testing to commence in quarter 1
21-C	GO	Transition to Financial Reporting Standard 102	Preparedness for the movement from CIPFA to FRS 102 to include governance related reports supporting the financial statements	<ul style="list-style-type: none"> • Final terms of engagement agreed • Testing has commenced
21-F	GO	Business Growth – Strategic Alliance(s)	Business case development, review and approval	<ul style="list-style-type: none"> • Terms of engagement being drafted • Work to be undertaken in quarter 1
21-H	RM	Credit Control	Review of credit control arrangements especially with export and private sector and due diligence routines	<ul style="list-style-type: none"> • Terms of engagement being drafted
21-J	RM	Counter Fraud - Procurement	Specific area(s) of potential fraud are addressed	<ul style="list-style-type: none"> • Final terms of engagement issued • Work to be undertaken in quarter 2
21-N	IC	General Financial Systems	To discuss with the External Auditor and Assistant Director (Finance), but typical coverage includes reconciliations; receivables; payables; payroll and stock	<ul style="list-style-type: none"> • Final terms of engagement issued • Testing due to start in December 2020

21-O	IC	IT General Controls	The range of controls expected by the External Auditor are well designed and consistently applied.	<ul style="list-style-type: none"> Final terms of engagement issued Testing due to start in November 2020
21-R	IC	Overseas Travel	Post event reviews	<ul style="list-style-type: none"> Testing nearing completion Report currently being compiled

Audits not started

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ May 2020</u>
21-D	GO	Transition from EU	Preparedness for potential supply chain issues and workforce issues	<ul style="list-style-type: none"> Not started
21-G	RM	Warehouse	Review of the capital investment decision process	<ul style="list-style-type: none"> Not started
21-L	RM	IT Developments	Replacing e-mail servers into the cloud; future delivery methods	<ul style="list-style-type: none"> Not started
21-M	RM	Emerging Risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements	<ul style="list-style-type: none"> Not started
21-P	IC	Rebates Income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	<ul style="list-style-type: none"> Not started
21-Q	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	<ul style="list-style-type: none"> Not started

¹unique reference numbers based on the financial year in question (i.e. '21-A' relates to the first entry on the approved 2020/21 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

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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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