



Date: 18 May 2021
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, 26 May 2021 at 10.30 am via Microsoft Teams.

Yours faithfully,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Pages</u>
1. Minutes of the meeting held on 3 February 2021.	(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 2020-21.	(Pages 7 - 26)
5. Progress Against the 2020-21 and 2021-22 Internal Audit Plans.	(Pages 27 - 44)



6. Date of next meeting.

The next meeting of the Subcommittee will take place early 2022 and will be confirmed at a later date.

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 2020-21.

(Pages 45 - 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 on Wednesday, 3 February 2021.

PRESENT

Cllr. P. Butlin
Dr. R. K. A. Feltham CC

Mrs. S. Rawlins CC
Mr. D. Seaton CC
Cllr. M. Howell CC

Apologies

Cllr. S. Clancy (Norfolk County Council)

In attendance

ESPO

Mr. K. Smith - Director
Mr. D. Godsell – Assistant Director
Mr. M. Selwyn-Smith – Assistant Director
Mr. M. Campbell – Assistant Director
Mr. P. Davis

Leicestershire County Council

Mr. D. Keegan – On behalf of Consortium Secretary
Mr. N. Jones – Head of Internal Audit
Mr. M. Davis – Audit Manager
Mr. M. Seedat – Head of Democratic Services
Ms. C. Tuohy – Democratic Services Officer

90. Appointment of Chairman.

Cllr. P. Butlin was appointed Chairman for the municipal year ending May 2021.

Cllr. P. Butlin in the Chair

91. Minutes of the meeting held on 20 May 2020.

The minutes of the meeting held on 20 May 2020 were taken as read, confirmed and signed.

92. 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.

93. 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.

94. Internal Audit Service - Progress Against the 2020-21 Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the Internal Audit Plan for 2020-20. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

The Subcommittee was advised that there were no high importance recommendations to date. Due to COVID-19 two pieces of work would be completed during 2021/22, there were also five pieces of work in progress that would be completed in the final quarter to allow for consideration of sufficient sample sizes.

In response to queries regarding Cyber Security, Members were assured that ESPO's procedures were regularly monitored and considered secure. One error had been investigated regarding a customer's handling of an invoice, awareness had been raised and was being mitigated.

Though ESPO's own IT Team, Leicestershire County Council's IT Service and national accredited cyber security institutes ESPO kept aware of any cyber security risks. As with any other organisation the greatest risk was staff and to mitigate this risk ESPO ensured it kept staff aware through IT communications were regularly reminded of user protocols and of latest threats and risks

As a result of COVID-19 site visits had been deferred. Such visits remained beneficial due to the valuable data gained from engaging with companies and verifying their own financial figures. There was a further tangible benefits to writing to companies regarding potential visits, as well as sharing lessons learnt.

RESOLVED:

That the report and information now provided be noted.

95. Annual Internal Audit Plan 2021-2022.

The Subcommittee received a report of the Consortium Treasurer on the Annual Internal Audit Plan 2021-22. 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.

Arising from the discussion the following points were noted:

- i. the cost and benefit of previous business cases would be considered to determine whether goals set out within the respective business case had been realised.

- ii. The Internal Audit service did not have the resources to be able to audit all areas of ESPO. Instead the Plan took a pragmatic approach focussing on the high risks to ESPO and its owners. As standard the annual plan looked at key financial and the IT systems that underpinned ESPO's business routine.
- iii. In relation to the impact that the United Kingdom's exit from the European Union, Internal Audit would reflect on the situation in six months' time to consider ESPO's position and mitigating actions taken. If there were immediate concerns an earlier audit would be undertaken.

RESOLVED:

That the Annual Internal Audit Plan 2021-22 be recommended for approval at the Management Committee on 14 March 2021.

96. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 26 May at 10.30am.

97. Exclusion of the Press and Public.

That under Section 100A of the Local Government Act 1972, the public be excluded for the remaining item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act and that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

98. Forecast Outturn 2020/21 and Draft MTFS 2021/22-2024/25.

The Subcommittee received an exempt report of the Director and Consortium Treasurer outlining the forecast outturn 2020/21 and the draft MTFS 2021/22 – 2024/25. 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)

RESOLVED:

That the following be supported for approval by the Management Committee on 17 March 2021.

- a) Agreement of the MTFS which incorporates the recommended revenue budget for 2021/22 totalling a surplus of 5.0million.
- b) Approval of the projected provisional revenue budgets as set out in paragraph 18.
- c) That the level of reserves as set out in paragraph 44 be noted and that the use of those earmarked fund be agreed.
- d) That approval be given to the 2021/22 capital programme as set out in paragraph 40.

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

The Committee considered this matter, the Chairman having decided that it was of an urgent nature...

Times Not Specified
03 February 2021

CHAIRMAN



ESPO FINANCE & AUDIT SUBCOMMITTEE – 26 MAY 2021

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2020-21

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Finance & Audit Subcommittee (the Subcommittee) with an annual report on internal audit work conducted during 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. 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 either the draft Annual Governance Statement or a different governance related report supporting the financial statements, which will be reported to a future Management Committee.
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 23 June 2021.
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 23 June 2021
- e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

Internal Audit Service Annual Report 2020-21

- 8. The annual report for 2020-21 is provided in the Appendix.
- 9. Headlines from the report are: -
 - a. Whilst one audit returned a partial assurance rating, management has accepted the recommendation and is already working to implement them.
 - b. 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)
 - c. An overall substantial assurance rating is given that the control environment remains adequate and effective.
 - d. The majority of planned work was achieved
 - e. More days were provided than planned, despite disruptions caused by the Government imposed lockdowns
 - f. The HoIAS considers ESPO's responses to continuing to operate its finance and IT systems during lockdowns were well planned.

Resources Implications

- 10. 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.
- 11. 155 days were provided (150 planned) and the total charge to ESPO was £52,350.

Recommendations

- 12. That the Finance & Audit Subcommittee notes the Internal Audit Service annual report for 2020-21 and advises the Management Committee accordingly.

Equal Opportunities Implications

13. 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 2020-21

Officer to Contact

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Appendices

Appendix	Internal Audit Service Annual Report 2020-21
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 between 1 April 2020 and 14 May 2021 from which the overall opinion is derived

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ESPO

Leicestershire County Council Internal Audit Service Annual Report 2020-21

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

17 May 2021

ESPO
LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE
ANNUAL REPORT 2020-21

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, assurance ratings, 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 overall opinion has been reached: -

Aside from the partial assurance rating given following the audit of credit control, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective

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

- 8. 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. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.
- 9. A number of 2019-20 audits that were at draft report stage were closed with no changes to opinions
- 10. Whilst there were not any individual high importance recommendations in 2020-21, the collective number of recommendations made in the credit control audit, led to a partial assurance rating being applied. ESPO management has accepted the recommendations and is working on implementing actions to mitigate the risk.
- 11. A further seven '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, the HoIAS does not envisage management will dispute their substantial assurance opinions

12. Ten audits returning 'no opinion' were 'consulting' (advisory) type audits (see definitions). Work continues to review data matches after ESPO voluntarily submitted its payroll and creditors data into the 'National Fraud Initiative' (a nationwide counter-fraud data-matching exercise).
13. Two audits remain work in progress at the time of this statement,
14. Two audits were deferred into 2021-22 one of which wasn't undertaken because of the impact of covid-19 on workplaces.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.
16. Other than the Government enforced lockdowns because of covid-19, there were no known impairments or restrictions to internal audit's scope. A decision was taken to postpone rebates incomes audits as it's considered more productive to work at the suppliers' sites.

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 (time to 31st March 2021).

Table 1 : Overall performance against 2020-21 internal audit plan

	<u>Audits</u>	<u>Complete @ 14/5</u>	<u>Incomplete @ 14/5</u>	<u>Cancelled</u>	<u>Days</u>
Close 19-20	1	1	-	-	20
Follow up HI recs	-	-	-	-	-
Planned	17	13	2	2	102
Unplanned	5	5	-	-	19
Client management	1	1	-	-	14
Total	24	20	2	2	155

18. 150 days were originally planned. Some resource has already been utilised in 2021-22 completing 2020-21 audits.

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

19. The HoIAS will undertake a short desk-top self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. The HoIAS will also review the service's Quality Assurance and Improvement Programme (QAIP).
20. Results of the self-assessment and review will be reported to Management Committee on 23 June 2021.

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

21. None, but 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 (or any alternative governance report) before it is presented to Management Committee.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

17 May 2021

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**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2020-21**

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

17th May 2020

Background

During the financial year 2020-21, 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. 2020-21 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 2020-21 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

Good governance principles were found to have been applied in audits of the Annual Governance Statement compilation and the readiness for transition from CIPFA accounting methods to FRS 102. Advice was provided in respect of the analysis and reworking of ESPO's Procurement Workplan for the remainder of 2020/21 in order to adjust Business as Usual activity as a result of the effect of COVID-19. The results of the Leadership Team's self-assessment of preparedness for potential supply chain issues and workforce issues due to EU exit are being reviewed.

Advice was provided on the compilation of the AGS and a revision to the Local Code of Governance.

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. For the September 2020 review (of the 2019-20 AGS) the Director reflected the impact of covid-19 on ESPO's governance arrangements. The Director continued to display good governance by reporting how ESPO was managing its staff safety throughout the rest of 2020-21.

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.

An audit of credit control arrangements returned only a partial assurance rating. ESPO management accepted all findings and is working on implementing recommendations. A follow up audit is planned in the late summer.

An audit of counter fraud (procurement) returned substantial assurance and advisory work on the warehouse project, the website development, IT developments and climate change was positively received by management. An assessment of any matches identified in the National Fraud Initiative results should be available for the June Management Committee.

A fraud risk assessment was undertaken. No real issues were identified.

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

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken including those of ESPO's General Financial Systems, IT General Controls and work provided by the Servicing Authority (H&S). Each returned substantial assurance.

Assurances were obtained on ESPO's procedures for working remotely and financial systems

Advisory work was undertaken in respect of a Cyber Issue, an HR Compatibility claim

Testing continues on post event reviews of overseas travel.

The annual rebates income audit could not be completed because it would have benefitted for required site visits and that was possible.

Aside from the partial assurance rating given following the audit of credit control, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective

17th May 2021

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 Internal Audit Service work between 1 April 2020 and 14 May 2021 from which the overall opinion is derived

<u>Ref¹</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 14 May 2021</u>
21-A	N/A	Continuation of work commenced in 2019-20	To complete any outstanding audits	<ul style="list-style-type: none"> Complete
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"> Final report issued – Substantial Assurance
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 report issued - Substantial Assurance
21-E	GO	Frameworks	Developing any new offerings	<ul style="list-style-type: none"> As reported previously, two pieces of advisory work completed in respect of the analysis and reworking of ESPO's Procurement Workplan for the remainder of 2020/21 in order to adjust Business as Usual activity as a result of the effect of COVID-19.
21-G	RM	Warehouse	<p>Original Objective: Review of the capital investment decision process</p> <p>Revised Objective: To provide advisory through the project lifecycle (see 2021/22 plan)</p>	<ul style="list-style-type: none"> Advisory Complete for 2020/21
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"> Final report issued – Partial Assurance <p>A number of recommendations made but all accepted by management</p>
21-I	RM	Counter Fraud - NFI	Results are correctly interpretation and investigated	<ul style="list-style-type: none"> Matched reports were received in February 2021 and promptly issued to

				relevant ESPO Officers to review <ul style="list-style-type: none"> • Completion of investigatory work has been requested by end of May 2021 • Further work will be undertaken therefore in 2021/22 (See Job 22-J)
21-J	RM	Counter Fraud - Procurement	Specific area(s) of potential fraud are addressed	<ul style="list-style-type: none"> • Draft report issued – Substantial Assurance
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 the ICT auditor
21-L	RM	IT Developments	Replacing e-mail servers into the cloud; future delivery methods	<ul style="list-style-type: none"> • All development work was incorporated into Key ICT Controls coverage for 20/21 – see Job 21-O.
21-M	RM	Emerging Risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements	<ul style="list-style-type: none"> • Climate Change Internal Control Questionnaire issued to Leadership Team • Further work to be undertaken in 21/22
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"> • Draft Report Issued – Substantial assurance
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"> • Draft Report Issued – Substantial assurance
21-Q	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	<ul style="list-style-type: none"> • Draft Report Issued – Substantial assurance

Substitute/Additional Jobs – All completed:

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 14 May 2021</u>
21-S1	IC	Contingency – Cyber Issue	To investigate a fraudulent invoice associated with an ESPO client	<ul style="list-style-type: none"> Advisory - work complete (all procedures at ESPO operated correctly – the issue was at the customer end)
21-S2	IC	Contingency – HR Compatibility claim	To ascertain validity of the claim and any associated lessons learned.	<ul style="list-style-type: none"> Advisory Complete
21-S3	IC	Contingency – IT Assurances during COVID	Adequate IT Controls are in place during the Covid-19 Pandemic.	<ul style="list-style-type: none"> Final report issued - Substantial Assurance
21-S4	IC	Contingency – Receivables and Payables Assurances during COVID	Key Receivables and Payables Assurances were maintained during the initial move to offsite working	<ul style="list-style-type: none"> Advisory – work complete and no issues raised
21-S5	RM	Counter Fraud Risk Assessment	'Identification of Potential Fraud Risks in accordance with the CIPFA Code of Practice on Counter Fraud (2014)	<ul style="list-style-type: none"> Advisory – work complete and no issues raised

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 14 May 2021</u>
21-D	GO	Transition from EU	Preparedness for potential supply chain issues and workforce issues	<ul style="list-style-type: none"> Self-Assessment questionnaire returned by ESPO Leadership Team – results currently being analysed <p>(Note: Work purposely delayed until deal/no deal situation was known and could be factored in)</p>
21-R	IC	Overseas Travel	Post event reviews	<ul style="list-style-type: none"> Report currently being compiled

Audits not started

None

Deferred Jobs

21-F	GO	Business Growth – Strategic Alliance(s)	Business case development, review and approval	<ul style="list-style-type: none"> Deferred into 21/22 (COVID has delayed some of the progress work at the ESPO end)
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"> Supplier visits have not been possible – deferred into 21/22

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



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 26 MAY 2021

INTERNAL AUDIT SERVICE

PROGRESS AGAINST THE 2020-21 and 2021-22 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 and/or partial assurance opinions 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 2020/21 and 2021/22 Plans were approved by the Management Committee on 4 March 2020 and 17 March 2021 respectively. 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.

Partial Assurance opinion rating

7. There has been one partial assurance opinion audit rating in our 20/21 coverage in relation to an audit of Credit Control. The audit identified the need for control improvements in the following areas:
 - Defined procedures
 - Credit Control Policy
 - Debt Management Policy
 - Suitably Qualified and Trained Staff adhering to policies/procedures
 - Timely Management Information
 - System Access
 - Effective link between the management of credit and the supply of goods and/or services
 - Financial regulations embedded into business processes
 - Segregation of Duties
8. All recommendations within the report were accepted and an implementation plan agreed with the newly appointed Commercial Financial Controller. The intention is to ensure this implementation plan is completed by mid-August to allow further audit testing in time for an update to be given to the September Management Committee.

Virement:

9. As reported previously in February, there were two deferred/cancelled audits which were more than offset by five unplanned jobs (Ref 21-S Jobs 1 to 5) that were completed during the financial year.

2020/21 Progress to closedown

10. A summary of progress is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed work/completed consultancy work	19	1 x Prior Year 1 x Partial Assurance 3 x Substantial Assurance 4 x Draft Reports i.e. but currently substantial assurance 6 x Planned advisory and/or Consultancy Complete 4 x Unplanned advisory and/or consultancy – all complete	21-A 21-H 21-B, 21-C, 21-S3 (Unplanned) 21-J, 21-N, 21-O, 21-Q 21-E, 21-G, 21-I, 21-K, 21-L, 21-M 21-S1, 21-S2, 21-S4, 21-S5
Work in progress	2	N/A	21-D and 21-R
Cancelled/Deferred Audits	2	N/A	21-F & 21-P

11. The two audits still classed as work in progress have been transferred into the 2021/22 Internal Audit plan and will be completed in the first quarter. It should be noted however that several audits from the 2021/22 plan have been started early to offset these two outstanding audits from the 2020/21 plan – see further below.
12. Appendix 1 provides more detail in respect of progress against the 2020-21 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.

2021/22 Progress to date

13. A summary of progress against the 2021/22 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	1 x Completed Advisory 2 x On-Going Advisory	22-M job 1 22-J & 22-K,
Work in progress	2 6	Work in progress old year Work in progress current year	21-D & 21-R 22-C, 22-I, 22-M job 2, 22M job 3, 22-N, 22-O
Not started	10	N/A	22-B, 22-D, 22E, 22-F, 22-G, 22-H, 22-L, 22-P, 22-Q, 22-R

13. The above table demonstrates that considerable early progress has been made with 21/22 audits.
14. Appendix 2 provides more detailed progress against the 2021-22 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 4 March 2020 – Annual Internal Audit Plan 2020/21

Report to ESPO Management Committee 17 March 2021 – Annual Internal Audit Plan 2021/22

Officer to Contact

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Appendices

Appendix 1 - Summary progress against 2020-21 audits as at May 2021

Appendix 2 - Summary progress against 2021-22 audits as at May 2021

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Summary progress against 2020-21 audits as at 17 May 2021

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 @ 17 May 2021</u>
21-A	N/A	Continuation of work commenced in 2019-20	To complete any outstanding audits	<ul style="list-style-type: none"> Complete
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"> Final report issued – Substantial Assurance
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 report issued - Substantial Assurance
21-E	GO	Frameworks	Developing any new offerings	<ul style="list-style-type: none"> As reported previously, two pieces of advisory work completed in respect of the analysis and reworking of ESPO's Procurement Workplan for the remainder of 2020/21 in order to adjust Business as Usual activity as a result of the effect of COVID-19.
21-G	RM	Warehouse	<p>Original Objective: Review of the capital investment decision process</p> <p>Revised Objective: To provide advisory through the project lifecycle (see 2021/22 plan)</p>	<ul style="list-style-type: none"> Advisory Complete for 2020/21
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"> Final Report issued – Partial Assurance <p>Control improvements identified as being required in the following areas:</p>

				<ul style="list-style-type: none"> • Defined procedures • Credit Control Policy • Debt Management Policy • Suitably Qualified and Trained Staff adhering to policies/procedures • Timely Management Information • System Access • Effective link between the management of credit and the supply of goods and/or services • Financial regulations embedded into business processes • Segregation of Duties <p>Remedial action to be tested prior to Management Committee in September 21 – see Job Ref 22–I in the 21/22 Internal Audit Plan.</p>
21-I	RM	Counter Fraud - NFI	Results are correctly interpretation and investigated	<ul style="list-style-type: none"> • Matched reports were received in February 2021 and promptly issued to relevant ESPO Officers to review • Completion of investigatory work has been requested by end of May 2021 • Further work will be undertaken therefore in 2021/22 (See Job 22-J)
21-J	RM	Counter Fraud - Procurement	Specific area(s) of potential fraud are addressed	<ul style="list-style-type: none"> • Draft report issued
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 the ICT auditor

				<ul style="list-style-type: none"> • Work will continue into 21/22 – See Job 22-K
21-L	RM	IT Developments	Replacing e-mail servers into the cloud; future delivery methods	<ul style="list-style-type: none"> • All development work was incorporated into Key ICT Controls coverage for 20/21 – see Job 21-O.
21-M	RM	Emerging Risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements	<ul style="list-style-type: none"> • Climate Change Internal Control Questionnaire issued to Leadership Team • Further work to be undertaken in 21/22
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"> • Draft Report Issued
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"> • Draft Report Issued
21-Q	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	<ul style="list-style-type: none"> • Draft Report Issued

Substitute/Additional Jobs – All completed:

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 17 May 2021</u>
21-S1	IC	Contingency – Cyber Issue	To investigate a fraudulent invoice associated with an ESPO client	<ul style="list-style-type: none"> • Advisory - work complete (all procedures at ESPO operated correctly – the issue was at the customer end)
21-S2	IC	Contingency – HR Compatibility claim	To ascertain validity of the claim and any associated lessons learned.	<ul style="list-style-type: none"> • Advisory Complete
21-S3	IC	Contingency – IT Assurances during COVID	Adequate IT Controls are in place during the Covid-19 Pandemic.	<ul style="list-style-type: none"> • Substantial Assurance

21-S4	IC	Contingency – Receivables and Payables Assurances during COVID	Key Receivables and Payables Assurances were maintained during the initial move to offsite working	<ul style="list-style-type: none"> Advisory – work complete and no issues raised
21-S5	RM	Counter Fraud Risk Assessment	'Identification of Potential Fraud Risks in accordance with the CIPFA Code of Practice on Counter Fraud (2014)	<ul style="list-style-type: none"> Advisory – work complete and no issues raised

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 17 May 2021</u>
21-D	GO	Transition from EU	Preparedness for potential supply chain issues and workforce issues	<ul style="list-style-type: none"> Self-Assessment questionnaire returned by ESPO Leadership Team – results currently being analysed <p>(Note: Work purposely delayed until deal/no deal situation was known and could be factored in)</p>
21-R	IC	Overseas Travel	Post event reviews	<ul style="list-style-type: none"> Report currently being compiled

Audits not started

None

Deferred Jobs

21-F	GO	Business Growth – Strategic Alliance(s)	Business case development, review and approval	<ul style="list-style-type: none"> Deferred into 21/22 (COVID has delayed some of the progress work at the ESPO end)
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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"> Supplier visits have not been possible – deferred into 21/22
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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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Summary progress against 2021-22 audits as at 17 May 2021

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 @ 17 May 2021</u>
22-J	RM	Counter Fraud - NFI specific	Results are correctly interpreted and investigated	Completion of investigatory work has been requested by end of May 2021 Final report will be produced once investigatory work is complete •
22-K	RM	Website Development	Post go live benefits realisation is achieved/'to be' working practices afford adequate internal control and management of risk	Ongoing control advice as critical friend on project board will continue into quarter 1. Benefits realisation piece unlikely to start until final quarter
22-M Job 1	RM	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements, continued adjustments as a result of existing the EU/COVID-19 requirements inc service recovery, Supply Chain implications & Compliance with revised procurement regulations, significant loss of business, MTFS targets not being met, Failure to retain staff, M Star framework issues	• A walk through of revised expense procedures has been completed (Job 22-M1) in order to enable consultancy advice to be issued in respect of control processes and procedures – see also job 22 M-2 further below)

Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 17 May 2021</u>
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22-A	N/A	Continuation of work commenced in 2020-21	To complete any outstanding audits that overlap the financial year	Remaining jobs to be completed in quarter one are: 21-D – Transition from EU and 21-R – Overseas Travel
22-C	N/A	Counter Fraud - Cyber Security	Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment <i>(note this also addresses a key potential risk highlighted in the ESPO Fraud risk assessment work undertaken in 20/21).</i>	Draft Terms of Engagement issued with the intention of testing in June 2021
22-I	RM	Credit Control	Follow up recommendations from the 2020/21 report	Draft Terms of Engagement issued to Client with a view to testing in August and updating Management Committee at September meeting
22-M	RM	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements, continued adjustments as a result of existing the EU/COVID-19 requirements inc service recovery, Supply Chain implications & Compliance with revised procurement regulations, significant loss of business, MTFS targets not being met, Failure to retain staff, M Star framework issues	A second Expenses Job (22 M-2) will enable further tests to be conducted with the first batch of payments – a terms of engagement for this piece of work is currently being compiled Work in relation to climate change will be completed within this emerging risk heading – Ref 22 M-3
22-N	IC	General Financial Systems (*)	To discuss with the External Auditor and the ESPO Financial Controller/Consortium Treasurer, but typical coverage includes reconciliations; receivables; payables; payroll and stock	Draft Terms of Engagement sent to client Work will not be undertaken until the final quarter i.e. Jan 22

22-O	IC	IT general controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	Draft Terms of Engagement sent to client Work will not be undertaken until the final quarter i.e. Jan 22
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Audits not started

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 17 May 2021</u>
22-B	GO	Annual Governance Requirements 2020-21	Review of the management self-assessments of assurance in the 2020-21 AGS or any subsequent FRS equivalent	<ul style="list-style-type: none"> Work to be undertaken once a decision has been reached in terms of precise governance requirements
22-D	GO	Export/ESPO International	Benefit of current developments materialise/proposed future developments are supported through robust business case sign off	
22-E	GO	Frameworks	Developing any new/developed mirrored offerings/Time taken	
22-F	GO	Key Projects - Strategic alliance(s)	Benefit of current developments materialise/proposed future developments are supported through robust business case sign off	
22-G	RM	Risk Management	Risk management policies and procedures are fit for purpose and being consistently applied allowing for an evaluation of ESPO's current level of risk management maturity.	

22-H	RM	Warehouse	Robust Governance and Management of Risk in the conversion of the Business Case to a Project Initiation Document and associated timetable for delivery.	Work to be undertaken only when it is timely to do so
22-L	RM	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 21/22 (not yet published but known to include some deliverables carried over from 20/21 e.g. Replacing e-mail servers into the cloud; future delivery methods etc)	Scoping to commence once ESPO IT Key Deliverables are known.
22-P	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	This will not be started until COVID regulations/associated employer and company procedures allow.
22-Q	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Final quarter piece of work i.e. Jan 22
22-R	IC	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	Only thing currently is Expenses Payments through Accounts Payables and this is being partially absorbed through Emerging Risks allocation

Deferred Jobs

None

¹unique reference numbers based on the financial year in question (i.e. '22-A' relates to the first entry on the approved 2021/22 audit plan)

²the 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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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
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