



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

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

Date:
My Ref MIS/ESPO
Please ask for: Mo Seedat
Direct Dialling (0116) 305 6037
e-mail: mo.seedat@leics.gov.uk

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, 15 February 2023 at 10.30 am in the County Hall, Glenfield.

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

Yours faithfully,

Mo Seedat
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Pages</u>
1. Minutes of the meeting held on 11 May 2022	(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.	

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
Glenfield ◦ Leicestershire ◦ LE3 8RA ◦ Tel: 0116 232 3232 ◦ Email: democracy@leics.gov.uk



www.twitter.com/leicsdemocracy



www.facebook.com/leicsdemocracy



www.leics.gov.uk/local_democracy

4. Revised ESPO Finance and Audit Subcommittee Terms of Reference and Risk Management Policy (Pages 7 - 30)
5. Progress against the 2022-23 Internal Audit Plan (Pages 31 - 42)
6. Draft Internal Audit Plan 2023-24 (Pages 43 - 50)
7. Date of next meeting.

The next meeting of the ESPO Finance and Audit Committee will be held on 11 October 2023 at 10.30am.
8. Any other items which the Chairman has decided to take as urgent.
9. Exclusion of the Press and Public

The public are likely to be excluded during consideration of the following items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).
10. ESPO Financial Performance Update - 9 months to December 2022 (Pages 51 - 60)
11. ESPO Budget 2023/24 (Pages 61 - 80)



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield on Wednesday, 11 May 2022.

PRESENT

Cllr. P. Butlin
Cllr. S. Rawlins
Cllr. A. Coles

Cllr. S. Clancy

Apologies

Apologies were received from Dr. R. K. A. Feltham CC and Cllr. B. Goodliffe

In attendance

ESPO

Mr. K. Smith
Mr. M. Selwyn-Smith
Mr. D. Goodacre

Leicestershire County Council

Mr. D. Keegan
Mr. N. Jones
Mr. M. Davis
Cat Tuohy

117. Appointment of Chairman.

Mr. S. Clancy was appointed Chairman for the municipal year ending May 2022.

Mr. S. Clancy in the Chair.

118. Minutes of the meeting held on 2 February 2022.

The minutes of the meeting held on 2 February 2022 were taken as read, confirmed and signed.

119. 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.

120. 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.

121. Change to Order of Business.

The Chairman sought and obtained the consent of the Board to vary the order of business from that set out on the agenda for the meeting.

122. Progress against the 2021-22 and 2022-23 Internal Audit Plans.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the 2021/22 and 2022/23 Internal Audit Plan. A copy of the report marked 'Agenda Item 5', is filed with these minutes.

Members noted that a legacy issue remained in relation to a partial assurance rating on credit control. The Head of Internal Audit service was confident that recommendations had been acted upon and included within operations, and it was expected to close the partial assurance rating in the next quarter.

It was further noted that a fraud incident had been triggered by a phishing exercise and human error. A formal incident response team had been put in place, and training had been provided for staff. The risk of bank mandate fraud and the risk of duplicate payments was included on the 2022-23 Internal Audit plan.

RESOLVED:

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

123. Internal Audit Service Annual Report 2021-22

The Subcommittee received a report of the Consortium Treasurer outlining the Internal Audit Service Annual Report 2021-22. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Members were pleased to note that overall completed audits gave positive opinions on all three components of the 'control environment' i.e. the framework of governance, risk management and control. It was noted one audit returned a partial assurance rating but that management had accepted the recommendations and were working to implement them.

As the international business had been delayed due to Covid-19 the audit on ESPO International would be deferred in favour of Cyber Security and other more pressing issues.

RESOLVED:

Members noted the contents of the Internal Audit Service Annual Report 2021/22 and recommend the report to the Management Committee for approval.

124. Date of next meeting.

RESOLVED:

That the next meeting of the Subcommittee be scheduled for early 2023.

125. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the remaining item of business on the grounds that it will involve the likely disclosure of exempt information during the consideration of the following items of business as defined in paragraphs 3 and 10 of Schedule 12A of the Act, and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

126. Draft Outturn 2021-22.

The Subcommittee considered an exempt report of the Director and Consortium Treasurer outlining the draft Outturn for 2021-22. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

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

The Subcommittee were informed that the Financial Controller expected to take the 2021-22 Accounts to Management Committee in September.

Members were advised that ESPO took advice from Leicestershire County Council Human Resources as Administering Authority in relation to living wage and its wage structure. It was important to balance the national living wage increases and the Local Government pay award.

The risk of stagflation was discussed, noting that contingency work needed to be undertaken to prepare for tough times ahead, while not damaging ESPO's long term potential. The Subcommittee were assured by ESPO's approach and supported their preparedness.

The Director thanked Members for their comments, feedback and insight, highlighting the strength it gave to ESPO as an organisation.

RESOLVED:

That the 2021/22 draft outturn and update to the MTFS be noted and that the Management Committee be recommended to agree the provisional £4.1m dividend and £0.4m allocation to Building Reserves in line with previous years;

This page is intentionally left blank

Finance and Audit Subcommittee – 15 February 2023**Update to Terms of Reference and Risk Management Policy****Purpose of Report**

1. The Subcommittee is asked to consider the proposed changes to its terms of reference, and its risk management policy, and recommend their approval to Management Committee.

Summary

2. The Subcommittee currently has no powers to approve reports or accept recommendations on behalf of the Management Committee. The terms of reference have been updated and are requesting that powers in certain areas are delegated by the Management Committee to the Finance and Audit Subcommittee to allow the more efficient operation of committees.
3. The focal areas where it is suggested powers are delegated include:
 - a. Internal Audit
 - b. External Audit
 - c. Risk Management
 - d. Annual Governance Statement
4. The proposed terms include the need for any material financial irregularities, high importance control weaknesses or significant governance concerns to be escalated to the Management Committee.
5. The Subcommittee would continue in its role of supporting the Management Committee in its oversight of financial plans and performance.
6. In addition, matching changes are proposed to the ESPO Risk Management Policy, so the document is consistent with the proposed changes to the terms of reference.

Resources Implications

7. None arising directly from this report

Recommendation

8. The Subcommittee is asked to endorse the proposed changes to its terms of reference, the revised Risk Management Policy and recommend their approval to Management Committee.

Contact

David Goodacre, Assistant Director – Finance and Business Development (interim)
D.Goodacre@espo.org

Appendices

Appendix 1: Proposed Finance and Audit Sub-Committee Terms of Reference
Appendix 2: Original Finance and Audit Sub-Committee Terms of Reference
Appendix 3: Risk Management Policy (track changes version)

This page is intentionally left blank

**APPENDIX 1: PROPOSED TERMS OF REFERENCE OF THE ESPO FINANCE AND
AUDIT COMMITTEE**

APPENDIX 1
TO THE CONSTITUTION OF THE ESPO MANAGEMENT COMMITTEE
TERMS OF REFERENCE OF THE ESPO FINANCE AND AUDIT COMMITTEE

1. MEMBERSHIP

One (1) Member from each Member Authority currently sitting on the Management Committee.

2. FUNCTIONS

The functions delegated to the Finance and Audit Subcommittee shall be:

1. To receive and approve Internal Audit annual reports (annual plans, progress and annual reports, and the Internal Audit Charter), escalating high importance recommendations and significant governance concerns to Management Committee for review.
2. To receive and approve the results of the independent external audit, escalating any material control deficiencies or financial irregularities identified to Management Committee for review.
3. To overseeing the process of risk management by:
 - i. Influencing the culture of risk management within the Organisation.
 - ii. Ensuring that a Corporate Risk Register is maintained, including details of the actions taken to mitigate the risks identified.
 - iii. Annually reviewing the Director's statement on the effectiveness of the Organisation's internal control system / Annual Governance Statement
 - iv. Review the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures. (*Note - Changes to risk appetite or the level of risk exposure to remain the responsibility of Management Committee – see 8 below.*)
 - v. Ensuring that the organisation's Contract Procedure Rules are maintained and kept under reasonable review.

The functions referred to the Finance and Audit Subcommittee shall be:-

4. To support the financial planning process by reviewing the content and presentation of draft financial plans and significant Business Cases for the Management Committee;
5. To contribute to the setting of financial performance targets and the monitoring of financial improvements;
6. To receive and review regular reports on monitoring of budgets and performance and other financial management;
7. To receive and review the draft annual financial statements for the Management Committee.
8. To support the Management Committee overseeing the process of risk management and advising on any changes to the risk appetite or level of risk exposure.

APPENDIX 2: CURRENT TERMS OF REFERENCE OF THE ESPO FINANCE AND AUDIT COMMITTEE

APPENDIX 1

**TO THE CONSTITUTION OF THE ESPO MANAGEMENT COMMITTEE
TERMS OF REFERENCE OF THE ESPO FINANCE AND AUDIT COMMITTEE**

1. MEMBERSHIP

One (1) Member from each Member Authority currently sitting on the Management Committee.

2. FUNCTIONS

The functions delegated to the Finance and Audit Subcommittee shall be:

1. To develop better understanding of the financial planning process undertaken by ESPO;
2. To support the financial planning process by reviewing the content and presentation of draft financial plans for the Management Committee;
3. To contribute to the setting of financial performance targets and the monitoring of efficiencies;
4. To receive and review regular reports on monitoring of budgets and performance and other financial management; and

To receive and review audit and governance reports.

This page is intentionally left blank

Eastern Shires Purchasing Organisation



RISK MANAGEMENT POLICY STATEMENT

Version Control

Version	Date	By whom	Changes	Comments
1	Feb 2007		Formulated	Committee March 2007
2	Jan 2012	DS	Review and Update	Circulation to SMT and Audit for comment
2b	Feb 2012	DS	Updated by strengthening commitment	Committee March 2012
2c	Feb 2013	CP	Review and Update	Committee March 2013
2d	May 2014	CP	Review and Update	Committee March 2014
3	May 2015	CP	Review and Update	Committee June 2015
4	Feb 2016	SL	Review and Update	Committee March 2016
5	Feb 2017	SL	Review and Update	Committee February 2017
6	Aug 2018	SL	Review and Update	Committee September 2018
7	Jan 2023	DG	Review and Update	

Risk Management

Index

RISK MANAGEMENT POLICY	4
Purpose of this document	4
Underlying approach to risk management	4
Role of the Management Committee.....	5
Role of the Director and Leadership Team	5
Role of Procurement Management	6
Risk management as part of the system of internal control	7
Annual review of effectiveness	9
RISK MANAGEMENT GUIDE	11
Background.....	11
Risk Definition.....	11
Internal controls	12
??.....	12
Risk Management Process.....	12
The stages are summarised below with a commentary on the arrangements at ESPO.	12
Identify the risks	12
Identify probable risk owner(s) and a risk co-ordinator	13
Evaluate the risks	13
Identify suitable responses to risk	14
Implement responses	14
Assurances about effectiveness	15
Embed and review	15
Size of Risk - Impact Guide	16
Impact Grid	16

RISK MANAGEMENT POLICY

Definitions

Eastern Shires Purchasing Organisation - "The Organisation"

Eastern Shires Purchasing Organisation's Risk Management Policy - "The Policy"

Definition of Risk

"The effect of uncertainty on objectives. This effect may be positive, negative or a deviation from the expected."

Definition of Risk Management

"The process, by which risks are identified, evaluated and controlled".

Purpose of this document

The Organisation recognizes that it has a responsibility to manage risks effectively. This should help to anticipate and provide a better understanding and respond to changing social, political, technological, economic, legislative and environmental threats.

Understanding the above should help the Organisation to minimise uncertainty in achieving its objectives and maximise the opportunities to achieve its vision.

The policy forms part of the Organisation's internal control and corporate governance arrangements.

The policy explains the Organisation's underlying approach to risk management, documents the roles and responsibilities of the Management Committee, the Director and Leadership Team, and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.

In addition, it describes the process the Management Committee will use to evaluate the effectiveness of the Organisation's internal control procedures.

The benefit of risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Underlying approach to risk management

The following key principles outline the Organisation's approach to risk management and internal control:

- The Management Committee has ultimate responsibility for overseeing the process of risk management within the Organisation as a whole.

- The Finance and Audit Sub-Committee supports Management Committee in overseeing the process of risk management with the Organisation and will approve the Risk Management Strategy on an annual basis.
- The Director and the Leadership Team are responsible for anticipating and identifying, assessing and managing risk, and advising and implementing policies approved by the Management Committee. Managing Risk will involve ensuring controls are in place and are regularly monitored. In addition the Director is responsible for alerting the Management Committee on new identified risks that are deemed to have a potential serious impact on ESPO business.
- The Organisation makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks.
- The Director and Assistant Directors are responsible for ensuring good risk management practice within their divisions
- The Director will report to the Chief Officers Group and Management Committee quarterly on the Corporate Risk Register.

Role of the Management Committee

1. The Management Committee has a fundamental role to play in the management of risk. Its role is to:
 - i) Influence the culture of risk management within the Organisation.
 - ii) Determine the appropriate risk appetite or level of exposure for the Organisation.
 - iii) Approve major decisions affecting the Organisation's risk profile or exposure.
 - iv) Consider risks attached to proposals for new, or changes to, policies and service delivery arrangements
 - v) Monitor the highest level risks the organisation is exposed to, including details of the actions taken to mitigate the risks identified.

Role of the Finance and Audit Sub-Committee

2. The Finance and Audit Sub-Committee supports Management Committee in overseeing the process of risk management. It's role is to:
 - i) Support Management Committee in influencing the culture of risk management within the Organisation.
 - ii) Ensure that a Corporate Risk Register is maintained, including details of the actions taken to mitigate the risks identified.
 - iii) Annually review the Director's statement on the effectiveness of the Organisation's internal control system / Annual Governance Statement
 - iv) Keep under reasonable review the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures. (Changes to risk

appetite or the level of risk exposure to remain the responsibility of Management Committee.)

Role of the Director and Leadership Team

3. Key roles of the Director and Leadership Team are to:
- i) Establish, gain approval from the Management Committee and implement policies on risk management and internal control i.e. to ensure that an adequate risk management framework and associated control environment is in place. Liaise with the servicing authority on all aspects of risk management.
 - ii) Identify, evaluate, and manage the fundamental strategic risks faced by the Organisation for consideration by the Management Committee.
 - iii) Determine the level of risk appetite, currently set at 10.
 - iv) Ensure regular updating of the Corporate Risk Register.
 - v) Identify, evaluate, and manage all operational and strategic risks faced by the Organisation. These should be clearly identified as such on the organisation's Corporate Risk Register.
 - vi) Business Continuity and Procurement, Health and Safety – sit at Operational risk management level but flow into the Corporate Risk Register because of their significance. The responsibility for managing these is still at Assistant Director level but with scrutiny and challenge by Director as to movement on actions.
 - vii) Provide information in a timely manner to the Management Committee on the status of risks and controls. Timing will depend on the level of risk, but quarterly, and where addition or new risks are evaluated and escalated (such as new procurement projects) then these will be approved prior to sign off.
 - viii) To maintain awareness of and promote the risk management policy to all relevant staff (use of key documents published via intranet).
 - ix) Arranging/providing risk management training as appropriate
 - x) Ensure synergy with other "risk" systems, eg Health and Safety, business continuity and project management
 - xi) Undertake an annual review of effectiveness of the system of internal control and provide a report to the Management Committee.

Role of Procurement Management

4. Key roles of the Procurement Management are to:
- i) Maintain awareness of risk management principles and take responsibility for managing risk within their own working environment
 - ii) Apply risk management to those risks requiring further action, particularly new developments and "procurement or project" work
 - iii) Maintain, and update where appropriate any project records of risk assessments undertaken and resulting action plans

- iv) Reporting systematically and promptly to their managers or Leadership Team any perceived new risks or failures of existing control measures

Risk management as part of the system of internal control

5. The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Organisation to respond to a variety of operational, financial, and commercial risks. These elements include:

a. Policies and procedures

Standard Operating Procedures and policies are used to improve business efficiencies and reinforce a standard approach to documents that are used externally, whilst at the same time underpinning internal control processes. The policies are approved by the Leadership Team and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

b. Reporting

Comprehensive reporting is designed to monitor performance, reviewing key risks where appropriate. Decisions to rectify concerns are made at regular meetings of the Leadership Team, and the Management Committee if appropriate. Market information is vital for developing management knowledge as a core element of the business. The mastering of such information through the monitoring of the external environment goes hand-in-hand with a comprehensive risk management process. Capturing and centralising such market intelligence will lead to developing better expertise and organisational capabilities, improving the quality of decision making, and enable a quick response to changing external conditions.

c. Business planning and budgeting

The business planning and budgeting processes are used to set targets, agree action plans, and allocate resources in order to achieve the long term objectives of the organisation articulated in the MTFS. Progress towards meeting business plan targets is monitored weekly/monthly/quarterly depending on individual targets.

d. High level risk framework (strategic risks)

This framework is compiled by the Leadership Team and helps to facilitate the identification, assessment and ongoing monitoring of risks fundamental to the Organisation. These are strategic risks that might impact on the high level, medium to long-term, goals and objectives of ESPO, together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

The Corporate Risk Register document is reviewed quarterly with emerging risks being added as required, and improvement actions and risk indicators are monitored regularly.

e. Operational risk management

These have been considered as the following:

- Health and Safety (Office, warehouse, transport);
- Procurement Projects;
- Business Continuity.

The latter has both strategic and operational aspects and has been considered in **separate documentation**.

- i. Health and Safety is discussed at least quarterly by the Leadership Team in conjunction with risk management. It is chaired by the Director and attended by the full Leadership Team and the Health, Safety and Wellbeing Advisor. Meeting every six weeks, the Joint Consultative Committee acts as a conduit to the quarterly risk management meeting and is chaired by the Assistant Director – Operations and attended by the HR Advisor, trade unions, staff representatives and Health, Safety and Wellbeing Advisor. The function of the two groups is to review the measures taken to ensure the health and safety at work of employees. One of the main objectives of these groups is to promote co-operation between staff and management in instigating, developing and carrying out measures to ensure the health and safety at work of the employees.

Specific Objectives are:

- The study of accident and notifiable disease statistics and trends, so that reports can be made to management on unsafe and unhealthy conditions and practices, together with recommendations for corrective action;
 - Examination of safety audit reports on a similar basis;
 - Consideration of reports and factual information provided by inspectors of the enforcing authority appointed under the Health and Safety at Work Act;
 - Consideration of reports which safety representatives may wish to submit;
 - Assistance in the development of works safety rules and safe systems of work;
 - A watch on the effectiveness of the safety content of employee training;
 - A watch on the adequacy of safety and health communication and publicity in the workplace;
 - The provision of a link with the appropriate enforcing authority;
 - To fulfil the employer's legal duty to consult with Health & Safety Representatives;
 - To discuss and review the effect of new Health and Safety law and the organisation's proposals for implementing the new law;
 - To monitor and review the effectiveness of the organisation's safety policy;
 - To develop and agree health and safety standards and procedures applicable to the workplace;
 - To review the organisation and administration of any occupational health and safety services provided by the organisation.
 - Review of insurance or other such claims and recommend measures to reduce the likelihood of future claims
- ii. Procurement: ESPO has significant procurement expertise to enable it to handle a diversity of contracts, some of which are particularly complex. ESPO has developed a business case process that requires both reward and risk to be evaluated and assessed as part of the compliance process. Risks are assessed at a Pre-Procurement Panel and at Contracts Panel (contract award) and on rare occasions are escalated to the Leadership Team. Supporting the tender process are a series of Standard Operating Procedures and a library of standard documentation.

Business Continuity: A business continuity plan is maintained and the plan is reviewed on an annual basis. Key management personal are on call on rotation, with third parties in place to provide additional emergency and continuity support.

The following statements may be applicable for inclusion within the policy:

f. Fraud and Corruption

The organisation is set against fraud and corruption and is committed to an effective Anti-Fraud and Corruption Strategy. Identification and addressing the risk of fraud and corruption are a key element within this risk management strategy. All members of staff are also required to undertake a mandatory course on fraud and awareness to facilitate the above

g. Auditors

LCC Internal Auditors are required to report to the Director and Consortium Treasurer on internal controls and alert Management to any emerging issues. In addition, the Director and Treasurer oversee internal audit, external audit and management as required in their review of internal controls. They are therefore well-placed to provide advice to the Management Committee on the effectiveness of the internal control system, including the Organisation's system for the management of risk.

h. Internal audit programme

Internal audit is an important element of the risk management process. Apart from its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.

i. External audit

External audit provides feedback to the Management Committee on the operation and adequacy of the internal financial controls reviewed as part of the annual audit.

j. Third party reports

From time to time, the use of external consultants will be necessary in areas such as marketing, IT systems and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal reporting systems.

k. Chief Officer Group (COG)

The COG consists of chief officers from all member authorities who meet regularly with the Organisation's senior management. The COG provides advice and guidance to facilitate the identification and assessment of procurement risks to the Organisation.

Annual review of effectiveness

6. The Management Committee is responsible for reviewing the effectiveness of internal control of the Organisation, based on information provided by the Director, Treasurer and auditors. Its approach is outlined below.
7. For the fundamental risks identified, the Director will seek the Management Committee's approval on the results of:
 - A review of the Organisation's prior year record on risk management and internal control
 - A review of the risk profile for the coming year and of the adequacy of current internal control arrangements.

- A recommendation, if required, for investment in further control arrangements.
8. In determining recommendations of the Management Committee, the Director will consider the following aspects.
- a. Control environment:
 - The Organisation's objectives and its financial and non-financial targets
 - Organisational structure and calibre of staff available.
 - Culture, approach, and resources with respect to the management of risk
 - Delegation of authority
 - Public reporting.
 - b. On-going identification and evaluation of fundamental risks:
 - Timely identification and assessment of fundamental risks
 - Prioritisation of risks and the allocation of resources to address areas of high exposure.
 - c. Information and communication:
 - Quality and timeliness of information on fundamental risks
 - Time it takes for control breakdowns to be recognised or new risks to be identified.
 - d. Monitoring and corrective action:
 - Ability of the Organisation to learn from its problems
 - Commitment and speed with which corrective actions are implemented.
9. The Director prepares a report of his review of the effectiveness of the Organisation's internal control system within the Annual Statement of Accounts and presented to the Management Committee for consideration and approval.

RISK MANAGEMENT GUIDE

Background

ESPO Management and staff have been facing and managing risk for over thirty years resulting in a successful organisation that has exploited opportunities to become one of the UK's largest local authority purchasing consortium.

However, in recent years there has been increasing focus on the corporate governance arrangements of both public and private companies with the aim of achieving greater transparency. This requirements is reinforced by the recommendation that local authorities should make a statement as to how they have complied with their local governance code, and how they have monitored the effectiveness of their corporate governance arrangements in their annual Statements of Accounts.

Risk Management provides assurance that:

- objectives are more likely to be achieved
- damaging events will not happen or are less likely to happen
- beneficial events will be or are more likely to be achieved
- make more informed decisions
- prevents injury, damage and losses and reduces the cost of risk.

The risk management method enables:

- the identification and evaluation of risks
- helps in setting acceptable risk thresholds
- the identification of controls against such risks; and
- helps identify indicators that give early warning that a risk is becoming more serious.
- embraces and exploits opportunities to explore new innovative ways of working and identifying opportunities to reduce costs and improve outcomes
- Improve co-ordination and consistency of service delivery
- Supports sustainable improvements in our activities and the achievement of value for money.

Risk Definition

Risk is the threat or possibility that an action or event will adversely or beneficially affect the organisation's ability to achieve its objectives.

This definition links risk to achieving the strategic and business objectives and also identifies that risk management is not just about recognising and mitigating negative risks but also identifies risk-taking opportunities that may lead to positive benefits.

Risk can be seen as short term, such as an event, or a conjunction of events harmful to both tangible and intangible assets. It can also be long term where there is a gradual disconnect between the organisation and its external environment.

Risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability.

Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Internal controls

Internal controls are a range of regulations, procedures and policies the organisation uses to manage its work and any additional controls or mitigating actions taken to deal with a particular situation.

The aim of risk management is to ensure that these controls are effective in identifying, evaluating, monitoring and minimising the risks ESPO faces in its day-to-day activities or any future ventures.

The level of risk faced by an organisation before any internal controls are applied is known as the gross or inherent risk.

The level of risk faced by ESPO after internal controls have been applied is known as the net or residual risk. Controls will not eliminate the risk but help us to manage it; therefore this is also known as the organisation's "exposure to risk".

The controls are those management actions taken to deal with a particular risk. A judgement is made on the numerical reduction to the raw risk score to produce the residual risk score.

Risk Indicators provide a series of 'warning lights' which provide early warning that action may be required to mitigate a particular risk through stronger internal controls, or if it is outside ESPO's control, to be aware of it and closely monitor.

ESPO also has to determine where it resides in terms of a spectrum ranging from 'risk-taking' to being 'risk averse'. The amount of risk ESPO is prepared to tolerate before action is required is known as 'risk tolerance'

The Size of Risk - Heat Map represents the ESPO's risk scoring matrix.

The risk appetite is reviewed by the Management Committee and is currently set at 10. In the quarterly risk review meetings, all risks over 10 are reviewed. New risks and opportunities are added and obsolete risks are removed.

ESPO's Corporate Risk Register has a summary table ranking each risk according to its score.

The Management Committee will receive reports, at least annually, on risk management arrangements and assessments. This will include where appropriate any revised policy, and the corporate risk register. Any changes to risk levels highlighted as a result of the Health and Safety and the management of Business Continuity will be reported upon through the corporate risk register together with a report on risk management included within the annual statement of Accounts.

Risk Management Process

The stages are summarised below with a commentary on the arrangements at ESPO.

Identify the risks

This is the first stage to use where the risks that may affect a particular new activity, existing operational activity or project are listed. At this point opportunities can be considered and risks grouped. This work forms the basis of the risk register.

Risks can be classified as Internal or External with the latter being categorised as:

- Reputation
- Financial Loss
- People
- Regulatory
- Business Objectives

IRM Risk Wheel



Identify probable risk owner(s) and a risk co-ordinator

The risk owner assesses the risk, detailing how actions can be taken and by when to reduce the likelihood and severity of the risk to an acceptable level. All actions detailed need to consider and detail who is do what and when. If monitoring or reporting is involved the frequency and responsibility for such reports should also be included.

- All risk assessments should be dated (i.e. date of completion) and certified by the risk owner.
- Responsibility and an action completion date should be assigned to all actions on the CRR.
- Where risks are high, above a residual score of 10, with further action required, action taken and progress on further action taken should be monitored by the leadership team on a quarterly basis. Any new risks are added and obsolete risks are deleted.

All Risk owners for those risks that affect the whole organisation will be the Leadership Team. At a project level the risk owner should be the project manager. Risk owners should be added to the risk register.

The risk co-ordinator collates all the risks to create a risk register and manages the risk reporting process.

Evaluate the risks

The risks should then be evaluated for impact and likelihood. An assessment of the timing of the risk can also be made.

The scales used for impact and likelihood are as follows:

Impact:

1. Negligible
2. Low
3. Medium
4. High
5. Very High

Likelihood:

1. Very Low
2. Low
3. Medium
4. High
5. Very High

The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25 depending on the severity of the risk. These numbers are indicative only as the process is not an exact science but most importantly it assists in thinking about the risk.

The total risk score divisions are as follows:

- 1 – 6 - Low
- 8 - 12 - Medium
- 14 - 20 - High
- Over 20 - Very high

The Size of Risk - Impact Guide provides examples for likelihood, impact and total risk score. Once this has been completed the risks are prioritised and ranked according to score and proximity. The risk register is updated accordingly.

Identify suitable responses to risk

Where needed, a range of practical responses to each significant risk on the risk register is identified and recorded on the register.

Range of responses (controls) to a risk:

- **Reduce** - take action to reduce either the probability of the risk developing further, or its impact.
- **Accept** - when the probability and impact are low producing a total risk score below 7, or when it would be too expensive to mitigate a risk.
- **Transfer** - transferring the risk to a third party, e.g. insurance.
- **Terminate** - identifying actions to eliminate the risk such as withdrawing from the activity.
- **Contingency** - a plan of action to be implemented when a risk develops further or passes through a risk threshold.
- **Prevent** - identifying measures to prevent a risk having an impact on an organisation.

Responses are proportional to the risk and mapped against the risks on the risk register.

Implement responses

The most appropriate responses to each risk will be determined and implemented by ESPO Management in order of priority. Approval for additional earmarked funding required to implement responses may be requested from the Management Committee. Responses when implemented should bring the most serious risks below the risk tolerance thresholds. Once implemented the responses will be monitored by Management and amended as necessary

The risk tolerance threshold score has been set at 10 or less. The exact meaning of this value is somewhat subjective and this is will be reviewed annually to assess whether it is appropriate as a methodology to highlight the key risk areas. All strategic risks even with a score less than 10 will appear on the register. Those that are red will be prioritised and will be considered quarterly by the Leadership team.

Assurances about effectiveness

The risk responses implemented are assessed for effectiveness in keeping the risks within agreed tolerance levels by regular monitoring of the risk indicators. Internal and external audit reports provide further assurance on effectiveness.

Embed and review

The risk management arrangements are reviewed on a regular basis including a review of the risk register and a report will be produced for the Management Committee, normally in June. The report will assess the effectiveness of the measures to control risk with recommendations for improvement or development.

All risks are reviewed quarterly by the relevant Assistant Directors for their operational areas, but those risks above the risk appetite (>10) should feature in the CRR for review and monitoring by the Leadership Team with subsequent reporting to Chief Officer Group and Management Committee.

The Annual Governance Statement (June Committee) will also include a review of Risk Management policy and processes.

Size of Risk - Impact Guide

This Impact Guide is designed to assist in determining the scores applied to any risk. In the application within ESPO a 5 x 5 scale for impact and likelihood is used.

Impact ranges from Negligible (1) to Very High (5). Likelihood ranges from Very Low (1) to Very High (5). The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25. The scoring will be determined on the basis of the Leadership Team’s opinion of the residual risk after taking account of their perception of the effectiveness of the existing controls. These numbers are indicative.

The combined risk score can then be calculated to determine the severity of the risk on the following scale:

- ▶ 1 - 6 Low
- ▶ 8 - 12 Medium
- ▶ 14 - 20 High
- ▶ Over 20 - Very high

Impact Grid

The Impact Grid is the scoring matrix referred to above with risk thresholds applied according to the total risk score. Applying colours in this way is sometimes known as the 'traffic light' method. This gives 3 levels of risk denoted by colours in this case - red being the most serious; yellow being the middle level; and blue the least serious.

If, upon review, a risk crosses one of the thresholds it should trigger either an increase or decrease in the internal controls applied to it.

Severity	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

	Red
	Yellow
	Blue

Size of Risk – Impact Guide

The Impact guides are only for guidance and are not intended to be prescriptive. It should be the worst-case scenario that is usually used to rate the risk.

Level	Severity	Reputation	Financial (per	People	Regulatory	Business Objectives
1	Negligible	Internal	Less than £50,000	No	No	<ul style="list-style-type: none"> No impact
2	Low	Local (Minor adverse publicity)	Between £50,000 - £250,000	Minor Injury	No Consequence	<ul style="list-style-type: none"> Loss of a minor contract
3	Medium	Local or limited adverse publicity	Between £250,000 - £500,000	Major reversible injury	Limited regulatory consequence	<ul style="list-style-type: none"> Major IT Project is late Loss of a major contract
4	High	Negative headlines in national press	Between £500,000 - £750,000	Serious Injury	Significant regulatory consequence	<ul style="list-style-type: none"> Member authority leaves Consortium ESPO IT systems fail and cannot be recovered Major loss of sales due to staff shortages in the warehouse e.g. Flu pandemic
5	Very High	Sustained negative headlines in regional/national press	Greater than £750,000	Fatality	Substantial regulatory consequence	<ul style="list-style-type: none"> Major buildings fire resulting in closure Sustained failure to recruit staff

Size of Risk – Likelihood

Level	Descriptor	Likelihood	Description
1	Negligible	2% Likely	May occur only in exceptional circumstances
2	Low	5% Likely	Not likely to occur in normal circumstances
3	Medium	10% Likely	Could occur at some time
4	High	20% Likely	Will probably occur in most circumstances
5	Very High	50% Likely	Is expected to occur in most circumstances.

This page is intentionally left blank



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 15 FEBRUARY 2023

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2022-23

INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

1. To provide a summary of Leicestershire County Council Internal Audit Service's (LCCIAS) work to the Subcommittee and highlight any audits where high importance (HI) recommendations 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 2022-23 Plan was discussed at Finance and Audit Sub Committee on 2 February 2022 and subsequently approved by Management Committee on 16 March 2022. The scope of the audits and progress against them is shown in the Appendix.

Summary of Progress

Audit Opinion:

5. Where audits undertaken are an 'assurance' type i.e. the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e. the level of assurance that material risks are being managed. 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. 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
6. Consulting/advisory audits do not result in an opinion but are taken into account in the HoIAS annual opinion.

High Importance Recommendations

7. From the 2021/22 General Financial Systems Audit (concluded in the first quarter of 2022/23) we were able to test and, subject to approval from this committee, close one legacy partial opinion report in respect of our 2020/21 Credit Control coverage.
8. The 2021/22 Cyber Security Audit (concluded in the first quarter of 2022/23) resulted in a partial opinion report with three high importance recommendations being made. Given the significantly increased global risk of a major cyber issue, extensive follow up work was carried out and, as reported in year to Management Committee, two of the three high importance recommendations were lifted. One high importance recommendation (in respect of legacy systems) remained partially outstanding and so this will be reviewed along with other remaining recommendations as part of our 2023/24 coverage. A further update will be made to this committee at its next meeting.
9. It is pleasing to note that to date our 2022/23 coverage has not resulted in any other high importance recommendations and/or partial opinion reports.

In year changes to the Plan:

10. The plan is a live document subject to changes to address the most critical business risks to the organisation at any given time. The plan approved by Management Committee on 16 March 2022 comprised 18 auditable areas (excluding contingency and client management).

In year changes have been as follows:

Details	Job Reference	Auditable Areas
Plan approved on 16 March 2023		18
Additional area being audited under 'contingency' in respect of Temporary Health & Safety, Business Continuity & Security Risk Mitigation Procedures in place during the Warehouse Expansion Project	22/23-S	1
Sub-total		19
Less deferred job to be completed in 2023/24 once the Procurement Bill has gone through Parliament.	22/23-E	1
Total		18

2022-23 Progress to date

11. A summary of progress is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed to at least draft report stage or on-going consultancy work	9	1 x Prior Year 1 x Final Report – Substantial Assurance 2 x Draft Reports i.e. Opinion TBC 5 x Advisory	22/23-A 22/23-P 22/23-O & 22/23 -Q 22/23-B, 22/23-C, 22/23-F, 22/23-G & 22/23-J
Work in progress	9	N/A	22/23-D, 22/23-H, 22/23-I, 22/23-K, 22/23-L, 22/23-M, 22/23-N, 22/23-R & 22/23-S

12. It should be noted that of the 9 jobs that are currently work in progress, 5 are required to be undertaken in the final quarter for various reasons and a further one will straddle two financial years and so specific time has been allowed in the 23/24 plan to reflect this.

13. The Appendix summarises progress against the 2022-23 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.
14. The HoIAS provided input to the proposals to change meeting dates for the Subcommittee and the revisions to its Terms of Reference. The Internal Audit Charter will be updated to reflect the Subcommittee's proposed delegated powers to receive and approve internal audit reports.
15. Changes to the service level agreement covering internal audit provision, proposed by the Assistant Director - Finance and Business Development are under review.

Recommendation

16. That the contents of the report, any associated virements and also the current position in respect of high importance recommendations and/or partial opinion report(s) be noted.

Equal Opportunities Implications

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

Background Paper

Report to ESPO Management Committee 16 March 2022 – Annual Internal Audit Plan 2022-23

Officer to Contact

Chris Tambini
Consortium Treasurer

Tel: 0116 305 6199
Email: chris.tambini@leics.gov.uk

Neil Jones Head of Internal Audit & Assurance Service
Leicestershire County Council

Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendix

Appendix - Summary progress against 2022-23 audits as at 31 January 2023

This page is intentionally left blank

Summary progress against 2022-23 audits as at 31 January 2023

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

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2023</u>
22/23 - A	Various	Continuation of work commenced in 2021-22	To complete any outstanding audits that overlap the financial year	Completed
22/23 - B	Governance	Annual Governance Requirements 2021-22	Revised governance reporting arrangements are suitable	Completed - Control advice issued
22/23 - C	Governance	Counter Fraud - Cyber Security - follow up report	<p>Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment.</p> <p><i>Work will focus on ensuring the recommendations in the 21/22 report have been addressed</i></p>	<p>Consultancy work for 22/23 complete.</p> <p>Significant progress has been made to implement the recommendations made previously</p> <p>Furthermore, ESPO IT continue to robustly monitor progress against these actions by including these within their Cyber Security Risk Register. However, until all three high importance recommendations have been fully addressed it cannot be classed as complete for committee reporting purposes.</p> <p>(Additional time to complete also taken from contingency job 22/23 – S below)</p>

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2023</u>
22/23-F	Risk Management	Warehouse	Robust Governance and Management of Risk in the delivery in respect of the additional warehouse capacity at Grove Park	On-going control advice through Critical Friend Project Board Membership
22/23-G	Risk Management	Counter Fraud - NFI specific	Ensure relevant data is extracted at 30 September 2022, uploaded in October 2022 and assessment of output reports commenced in Feb 2023 with the overall objective of results being correctly interpreted and investigated and have due regard for a segregation of duties.	On-going control advice. Reports of potential matches currently being reviewed prior to being issued to client.
22/23-J	Risk Management	Emerging Risks	ESPO identification and preparedness for any emerging risks e.g. Legislative changes, continued adjustments as a result of existing the EU/COVID-19 requirements, material changes to the 5-Year business strategy	Complete – Various ad-hoc areas where control advice has been issued
22/23-O	Internal control	Counter Fraud: Bank Mandate Fraud	Policies and procedures surrounding the amendment of bank accounts are robust	Draft report issued.
22/23-P	Internal control	Counter Fraud: Approval process for variations to pay	Variations to pay are appropriately authorised in accordance with procedures	Final Report Issued – Substantial Assurance
22/23-Q	Internal control	Counter Fraud: Data Analytics - Accounts Payables Vendors	Use of Data Analytics to provide assurance in respect of the accounts payables vendor database	Draft report issued.

Audits in progress

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2023</u>
22/23-D	Governance	Frameworks	Developing any new/developed mirrored offerings/Time taken	Testing being undertaken
22/23-H	Risk Management	IT Developments	Work conducted in accordance with ESPO IT Key Deliverables 2022/2023 has been/ will be delivered. Work to be conducted in accordance with ESPO IT Key Deliverables 22/23	Testing being undertaken – <i>deferred into final quarter to carry out in conjunction with IT General Controls coverage</i>
22/23-I	Risk Management	Key Business Supplier Controls	Assessment of Risk Mitigation Procedures in place e.g. credit limits, credit rating assessments, parent guarantees, monitoring and market intelligence	Testing being undertaken
22/23-K	Risk Management	Business Continuity/Disaster Recovery	Risk of business inoperability is minimised and access and IT infrastructure is restored in a timely manner should a disaster occur	Testing being undertaken
22/23-L	Internal control	General Financial Systems (*3)	To discuss with the External Auditor and the ESPO Financial Controller/Consortium Treasurer, but typical coverage includes reconciliations; receivables; payables; payroll and stock	Testing nearing completion – <i>note work can only commence in final quarter and testing in final two months.</i>
22/23-M	Internal control	IT general controls (*3)	The range of controls expected by the External Auditor are well designed and consistently applied.	Testing being undertaken – <i>note work can only commence in final quarter and testing in final two months.</i>

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2023</u>
22/23-N	Internal control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	Approach to supplier visits currently being finalised.
22/23-R	Internal control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Testing being undertaken - <i>note work can only commence in final quarter and testing in final two months.</i>
22/23-S	Various	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers	<p>Time currently being used to commence a timely audit of Assessment of Temporary Health & Safety, Business Continuity & Security Risk Mitigation Procedures in place during the Warehouse Expansion Project – <i>only relevant to commence in Feb</i></p> <p>Due to the volume of testing required, time was also used to allow more time than originally planned to follow up a previous cyber security audit – job 22/23 – C above refers.</p>

Audits not started

None

Deferred audits

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2023</u>
22/23-E	Governance	Procurement	Policies and procedures in place have due regard for legislative requirements and timeliness and appropriateness of decision making	Deferred into 2023/24 due to the Procurement Bill only currently going through Parliament.

¹unique reference numbers based on the financial year in question (i.e. '23-A' relates to the first entry on the approved 2022/23 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

This page is intentionally left blank



ESPO FINANCE & AUDIT SUBCOMMITTEE – 15 FEBRUARY 2023

REPORT OF THE CONSORTIUM TREASURER

ANNUAL INTERNAL AUDIT PLAN 2023-24

Purpose of Report

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2023-24.

Background

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

approved by Management Committee at its meeting on 22 March 2023.

Planning methodology

7. The Director of ESPO and the Leadership Team identify and manage risk and where it is required, design, implement and operate robust internal control systems. Targeted internal audits have identified continuing improvements to governance and risk management at ESPO, so to ensure that current and emerging risks are adequately covered the audit plan is aligned with the Corporate Risk Register, the Business Strategy and Governance Reporting.
8. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the Director and the Leadership Team and the Consortium Treasurer and Secretary. The External Auditor will be consulted.
 - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - c. Identification and evaluation of the robustness of other forms of assurance received
 - d. Comparisons against similar purchasing consortia audit plans.
 - e. 'Horizon scanning' new and emerging risks from professional and industry sources
 - f. The risks to critical 'business as usual' systems when focus shifts elsewhere
9. Part of the plan requires annual audits on key elements of the financial and IT systems. These audits will be discussed with ESPO's External Auditors to assist in the planning of their annual audit.
10. Any other significant projects for example material changes to the 5-Year Business Strategy or significant ICT developments would be targeted for audit. GDPR compliance continues to be covered as part of Leicestershire County Council's audit but any findings of relevance will be reported to ESPO members. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations. An allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc) and progressing any high importance recommendations.

The internal audit plan 2023-24

11. The attached plan for 2023-24 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment. The overall scope of the plan is comparable to a competitor of ESPO.
12. A small amount of resource will be required to finalise 2022-23 audits.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2023-24 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be stressed that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in ESPO's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree any material changes with the Director of ESPO and Consortium Treasurer and these would be reported to the relevant Committee dependent on timing.
15. Detailed Terms of Engagement covering each audit's scope, timing and any areas for exclusion are agreed with the relevant risk owners (Assistant Director) in advance of each audit.

Progressing the Audit Plan

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

undertaken later in the year to prove that control has actually improved and is embedded.

Resource Implications

19. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. The 2023-24 plan has been agreed on an indicative 150 days. This level of coverage should enable the HoIAS to provide overall reasonable assurance to the Consortium Treasurer the risks that ESPO is facing are being managed.

Conclusion

20. The detail of the 2023-24 internal audit plan is attached in the Appendix to this report. The plan has been presented to the Consortium Treasurer, Consortium Secretary and the Director of ESPO for comments and approval.

Recommendation

21. The Sub Committee is requested to:
 - a) Support the methodology used as a basis for developing the internal audit plan;
 - b) Note the ESPO Internal Audit Plan for 2023-24 and advise the Management Committee accordingly.

Equal Opportunities Implications

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

Background Papers

None.

Officer to Contact

Chris Tambini
Consortium Treasurer
Tel: 0116 305 6199
Email: chris.tambini@leics.gov.uk

Neil Jones, Head of Internal Audit and Assurance Service
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

Appendix - ESPO Internal Audit Plan 2023-24

This page is intentionally left blank

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank