



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: LAUREN HASLAM,
DIRECTOR OF LAW AND GOVERNANCE,
LEICESTERSHIRE COUNTY COUNCIL

Date: 6 February 2024
My Ref: AP/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, 14 February 2024 at 10.30 am in the Sparkenhoe Committee Room, County Hall, Glenfield.

Members are reminded that a buffet lunch will not be provided after the meeting, although liquid refreshments will be available. Members are welcome to use the canteen at County Hall if they wish.

Yours faithfully,

Anna Poole
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 11 October 2023.	(Pages 3 - 8)
2.	Declarations of interest in respect of items on the agenda.	

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
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3. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.
4. Internal Audit Service - Progress against the 2023-24 Internal Audit Plan. (Pages 9 - 18)
5. Annual Internal Audit Plan 2024-25, External Quality Assessment and Internal Audit Charter. (Pages 19 - 36)
6. Date of next meeting.

The next meeting of the Subcommittee is scheduled to take place on Wednesday 9 October 2024 at 10.30am.

7. Any other items which the Chairman has decided to take as urgent.
8. Exclusion of the Press and Public.

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

9. Financial Performance Update - Nine Months to December 2023. (Pages 37 - 46)
10. Budget 2024/25. (Pages 47 - 68)
11. Risk Review (Pages 69 - 80)



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Wednesday, 11 October 2023.

PRESENT

Mrs M. Wright CC – Leicestershire County Council (in the Chair).
Cllr A. Coles – Peterborough City Council
Cllr S. Rawlins – Lincolnshire County Council

Apologies

Cllr P. Butlin – Warwickshire County Council
Cllr. A. Jamieson – Norfolk County Council
Cllr. N. Shailer – Cambridgeshire County Council

Attending virtually

Cllr. G. Peck – Norfolk County Council

137. Election of Chairman.

Councillor Andy Coles was appointed Chairman for the Municipal Year ending May 2024.

Councillor A Coles in the Chair

138. Minutes of the previous meeting.

The minutes of the meeting held on 15 February 2023 were taken as read, confirmed and signed.

139. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

140. Urgent items.

There were no urgent items for consideration.

141. External Audit of the 2022/23 Financial Statements.

The Committee considered a report from the external auditors, TC Group Limited, covering the 2022/23 Financial Statements, together with a draft letter of representation from the Consortium Treasurer. A copy of the report marked 'Agenda Item 5' is filed with these minutes.

The Chairman welcomed Richard Buckby from TC Group Limited to the meeting.

Richard Buckby explained that an unqualified audit opinion would be issued and highlighted that this had been a good, clean audit. No significant control weaknesses

were identified and there were no material adjusted or unadjusted audit differences. He went on to explain that only one item had been identified as a recommended control improvement and this related to reconciling general ledger revenue to sales/outputs in the VAT return. It was recommended that this is carried out on a quarterly basis and not just at the end of the year.

Arising from the discussion the following points were made:

- i. The ERP system used by ESPO wasn't configured to automatically complete the VAT return, but software was used to support the process. Within the process, there were a variety of checks and reviews to ensure accuracy. Members were assured that ESPO had received numerous routine inspections by HMRC, most recently in 2020/21 without issue arising.
- ii. Regarding stock valuation, the stock system valued each item at cost and, as is normal for most trading businesses, provision for the risk that some stock items may not sell above their cost is separately estimated. This provision considers recent sales and allows for a higher discount for slower moving items. This works in combination with any price rises or decreases which may be applied each year.
- iii. At the outset of the audit, the auditors compiled a list of the information required from ESPO officers in order to complete the audit. They also worked closely with the Finance and Sales Teams in order to get a detailed understanding of processes. A good level of detail was provided at the outset of the audit to reduce the number of follow up queries raised by the auditors and the planned timetable was achieved. The process for auditing had changed, with auditors onsite only for the first two weeks, and then clarification and follow-up was conducted by email and phone.

Members commended officers for the pleasing audit with no issues highlighted.

It was moved by Cllr Coles CC and seconded by Cllr. S. Rawlins that the external audit of the financial statements 2022/23 be approved.

RESOLVED:

That the external audit of the financial statements 2022/23 be approved.

142. Internal Audit Service - Annual Report 2022/23.

The Committee received a report of the Consortium Treasurer on the Internal Audit Service Annual Report 2022/23. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

In response to questions, the Head of Internal Audit (HoIAS) informed the Committee that the high importance recommendation related to cyber security identified as part of the audit was now resolved. Members were assured that further audit work would be carried out on cyber security in the new financial year as part of an ongoing commitment to minimising risk.

It was moved by Cllr Coles and seconded by Mrs. Wright CC that the Internal Audit Service Annual Report for 2022/23 be approved.

RESOLVED:

That the Internal Audit Service Annual Report for 2022/23 be approved.

143. Internal Audit Service - Progress against the 2023/24 Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the 2023/24 Internal Audit Plan. A copy of the report marked 'Agenda Item 7', is filed with these minutes.

In introducing the report, the Head of the Internal Audit Service (HoIAS) informed members that there were no issues to bring to the Committee's attention and that there were no new High Importance Recommendations for inclusion in the 2023/24 plan.

In response to questions, the following issues were raised:

- i. Testing so far had showed that staff were aware of hybrid working arrangements and expectations around this and this would be subject to testing during the audit, which would cover mental health, 121s, as well as progress checks. The hybrid working policy followed that used by Leicestershire County Council.
- ii. External consultants were used to undertake penetration testing on the IT system to test cyber security. Unless this work highlights significant issues that needed addressing immediately, further audit coverage of cyber security would likely be undertaken in 2024/25. Recommendations had been rated high, medium and low; high level concerns would be addressed immediately. A variety of testing and control methods had been put in place with regular staff training.
- iii. Health and Safety Risk Assessments were carried out for the warehouse extension. Operational colleagues worked closely with ESPO's Health and Safety Manager who formerly worked at Leicestershire County Council. Additionally, advice was sought from the County Council.

A number of approaches were used to manage risks and analyse emerging risks, including meetings with ESPO senior officers, adherence with the Internal Audit Guidance and Standards Regulations, and liaison with ESPO Committees. The Internal Auditors explained that the system was quite joined up and efficient. The warehouse extension had been added to the audit plan as a significant piece of work for the coming year.

It was moved by Cllr Coles and seconded by Cllr Rawlins that the progress update received be approved and the following be noted

- a) the addressing of the final high importance recommendations in respect of cyber security; and
- b) that there are no other high importance recommendations within the Committee's domain.

RESOLVED:

That the progress update received be approved and the following be noted

- a) the addressing of the final high importance recommendations in respect of cyber security; and
- b) that there are no other high importance recommendations within the Committee's domain.

144. 2022/23 Financial Statements and Annual Governance Statement.

The Committee considered a report of the Director and Consortium Treasurer which reported on the 2022/23 Financial Statements and the Annual Governance Statement. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

In presenting the report, Director explained that:

- i. the trading surplus previously reported to the Management Committee was a surplus of £5.9m, which was £0.3m higher than budget; it was a good performance year for ESPO. The Financial Statements showed a net profit for 2022/23 of £3.7m. This was different to the Management Accounts due statutory accounts adjustments, mainly pension cost accounting. However, members were assured that this would not affect the dividend paid. Turnover had reached £106m, which was the first time it had exceeded £100m.
- ii. the methodology for calculating the dividend had been agreed by the Management Committee in 2015. As in previous years, ESPO would like to retain an additional £400,000 to build reserves and support the working capital.
- iii. In compiling the Annual Governance Statement, the Consortium Treasurer and Consortium Secretary had been consulted and no significant governance concerns had been raised.

Arising from the discussion the following points were noted:-

- i. The retention of £400,000 was at a level to that retained in previous years. Calculating the level of retention was balanced with having sufficient funds to support the business and also to pay a dividend to Local Authorities.
- ii. All ESPO staff were part of the Leicestershire County Council Pension Scheme, on the same terms as County Council staff. Pension Scheme Valuations were reviewed and took into account current world events. The County Council's Pension Board scrutinised pension investments. The Leicestershire Local Government Pension Scheme (LGPS) was pooled with LGPS Central, which was a group of LGPS from the Midlands.
- iii. Intangible assets were similar to capital items and related to software and investment in the website, which were included on the balance sheet. As the benefit of expenditure was realised over a number of years, the costs were also attributed to the Balance Sheet over the same time period. Some digital costs were handled differently. For example, as development of the website was a large investment and presented a step change in the operation of the business radically improved the experience for customers, the costs for such were included as an asset on the Balance Sheet. However, for smaller investments, such as implementation of the Digital Strategy, elements of the cost were charged on a day-to-day basis to the Profit and Loss sheet.

It was moved by Cllr Coles and seconded by Cllr Rawlins that

- a) the Annual Governance Statement be approved; and
- b) the Management Committee be recommended to approve the 2022/23 financial statements and the proposed dividend pool of £4,369,269 to be paid in December 2023.

RESOLVED:

That the

- a) the Annual Governance Statement be approved; and
- b) the Management Committee be recommended to approve the 2022/23 financial statements and the proposed dividend pool of £4,369,269 to be paid in December 2023.

145. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 14 February 2024 at 10.30am.

146. 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.

147. Financial Performance Update - Five Months to August 2023.

The Committee considered an exempt report of the Director and Consortium Treasurer which provided an update on the financial performance in 2022/23, covering the five months to the end of August 2023. A copy of the report marked 'Agenda Item 12' 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).

It was moved by Cllr Coles and seconded by Cllr Rawlins that the update provided on the financial performance of ESPO in 2022/23, covering the 5 months to the end of August 2023 be noted.

RESOLVED:

That the update provided on the financial performance of ESPO in 2022/23, covering the 5 months to the end of August 2023 be noted.

148. Risk Review.

The Committee considered an exempt report of the Director and Consortium Treasurer which provided an overview of ESPO's risk landscape. A copy of the report marked 'Agenda Item 13' 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).

It was moved by Cllr Coles and seconded by Mrs Wright that the overview of ESPO's risk landscape be noted.

RESOLVED:

That the overview of ESPO's risk landscape be noted.

10.30 am - 12.16 pm
11 October 2023

CHAIRMAN



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 14 FEBRUARY 2024

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2023-24 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 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 the Management Committee for review. 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 2023-24 Plan was discussed at Finance and Audit Subcommittee on 15 February 2023 and subsequently approved by Management Committee on 22 March 2023. 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.
6. On occasions, the audit might require a high importance (HI) recommendation, denoting that (based upon a combination of probability and impact) in our opinion a significant weakness either exists or potentially could arise and therefore the system's objectives are seriously compromised. A report that has a 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.
7. 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
8. Consulting/advisory audits do not result in an opinion but are taken into account in the HoIAS annual opinion.

High Importance Recommendations

9. It is pleasing to note that to date our 2023/24 coverage has not resulted in any other high importance recommendations and/or partial opinion reports and there are no legacy high importance recommendations from previous financial years.

2023-24 Progress to date

10. 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	10	1 x Prior Year allocation to finalise 22/23 audits <i>(Covering 7 audits) – All substantial assurance</i>	23/24 – A <i>(Covering prior year audits: 22/23-D, I, K, L, M, O & Q)</i>
		3 x Final Report – Substantial Assurance	23/24 – I, K, P
		2 x Draft Report	23/24 – D, E
		1 x Follow Up report i.e. no opinion required	23/24 - C
		3 x Advisory	23/24–B, G & Q
Work in progress	8	N/A	23/24 - F, H, J, L, M, N, O, R

11. It should be noted there are valid reasons for all of the eight audits that are currently classified as work in progress and these are summarised as:
- i. two are required to be undertaken in the final quarter due to sample size requirements
 - ii. one is to be conducted at the same time as one of the audits above for synergy reasons (i.e., same staff needed for both)
 - iii. two had progressed as far as they could at this stage due to business and legislative requirements respectively
 - iv. three relate to on-going work throughout the financial year
12. The Appendix summarises progress against the 2023-24 plan. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress.

Recommendation

13. That the Committee approves the Progress against the 2023-24 Plan report and notes that there are no high importance recommendations within the Committee's domain.

Equal Opportunities Implications

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

Background Paper

Report to ESPO Management Committee 22 March 2023 – Annual Internal Audit Plan 2023-24

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=704&MId=7196&Ver=4>

Officers to Contact

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Appendix

Summary progress against 2023-24 audits as at 31 January 2023

Summary progress against 2023-24 audits as at 31 January 2024**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 2024</u>
23/24 - A	Various	Continuation of work commenced in 2022-23	To complete any outstanding audits that overlap the financial year As reported to the October 2023 meeting – all 7 reports were completed	7 x Final Report – Substantial Assurance
23/24 - B	Governance	Annual Governance Requirements 2022-23	Revised governance reporting arrangements are suitable	Advisory work complete
23/24 - C	Governance	Counter Fraud - Cyber Security - follow up report	Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment (note this also addresses a key potential risk highlighted in the ESPO Fraud risk assessment work undertaken in 20/21). Work will focus on ensuring the recommendations in the 21/22 report and subsequent 22/23 initial follow up report have been addressed	Final Report Issued – Of the original 49 recommendations that were raised in the 21/22 report there were 26 remaining in 22/23. Of these 26: 8 have been fully implemented 15 are classed as 'work in progress' 3 more low risk recommendations not yet started. High importance residual recommendation addressed.
23/24 - D	Governance	Hybrid Working Arrangements	Hybrid ways of working are fully embedded to ensure that performance levels and	Draft Report Issued

			requirements are maintained, staff wellbeing support is adequate, satisfactory health and safety and data security arrangements are in place and the right tools are readily available both in the office and whilst working offsite.	
23/24 - E	Governance	Counter Fraud - Procurement Fraud	Policies and procedures in operation have due regard for the industry standard risk mitigations in relation to procurement fraud.	Draft Report Issued
23/24 - G	Risk management	Counter Fraud - NFI specific	Focus on the 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 (data having previously been extracted on 30 September 2022 and uploaded in October 2022)	No instances of fraudulent activity were noted from the work undertaken and investigations made although there were 3 previously undetected cases of duplicate payments totalling £2.3K. Whilst non-material in both value and volume, associated risk mitigation controls were recommended.
23/24 - I	Risk Management	Warehouse Expansion - Risk Mitigation Temporary Revised Ways of Working	Assessment of Temporary Health & Safety, Business Continuity & Security Risk Mitigation Procedures in place	On-going control advice at an operational level. Preconstruction report issued with substantial assurance <i>Construction and post construction coverage will straddle 23/24 and 24/25 financial years in line with the build timetable</i>
23/24 - K	Risk Management	Supply Chain Controls	Early identification and mitigation of supply chain risks to ensure continuity of service	Final Report Issued – Substantial Assurance

23/24 - P	Internal Control	Use of Data Analytics to provide assurance in respect of key fraud risks and/or financial/operational risks	To provide assurances to management on the validity of VAT numbers held within the Supplier Records on System 21 (ESPO Supplier System)	Final Report Issued – Substantial Assurance
23/24 - Q	Internal Control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Final Report Issued - advisory

Audits in progress

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 31 January 2024</u>
23/24 - 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
23/24 - H	Risk Management	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 23/24	On-going work throughout 23/24, specific examples include: Payment of invoices online via the ESPO website. Governance of the overall IT Development process
23/24 - J	Risk Management	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. Legislative changes, continued adjustments as a result of legislative requirements, material changes to the 5-Year business strategy and other 'in year' matters requiring urgent attention	On-going work throughout 23/24, specific examples include: Periodically reviewing risk registers for significant changes and on-going sharing of good

				practice/control mitigation/leadership direction
23/24 – L	Internal Control	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	Testing currently being undertaken <i>Note: actual testing can only commence in final quarter due to sample periods required.</i>
23/24 –M	Internal Control	IT general controls (*)	The range of Information Technology General Controls (ITGC) expected by the External Auditor are well designed and consistently applied.	Testing currently being undertaken <i>Note: actual testing can only commence in final quarter due to sample periods required.</i>
23/24 –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	Testing due to commence
23/24 - O	Governance	Procurement	Policies and procedures in place have due regard for legislative requirements and timeliness and appropriateness of decision making (Key focus being Transforming Public Procurement requirements)	Work has commenced with initial focus on the governance arrangements to address Public Procurement Programme requirements in a timely manner, however an implementation date of October 2024 means this work will straddle two financial years
23/24 - R	Various	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - examples may include loss of customers/business, MTFS targets not being met, Failure to retain staff, staff sickness,	On-going throughout 23/24, specific examples include: Advisory work issued in respect of the local government transparency code

			energy related risks, major health & safety/legislative issue, warehouse issues, supply chain issues, adverse reputational issue, climate change, risks associated with ways of working	
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Audits not started

None

Deferred/cancelled audits

None to date

¹unique reference numbers based on the financial year in question (i.e. '23-A' relates to the first entry on the approved 2023/24 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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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 14 FEBRUARY 2023

**ANNUAL INTERNAL AUDIT PLAN 2024-25, EXTERNAL QUALITY
ASSESSMENT AND INTERNAL AUDIT CHARTER**

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to:
 - a. seek approval of the ESPO Internal Audit Plan 2024-25.
 - b. provide brief details on an independent external quality assessment of Leicestershire County Council's Internal Audit Service
 - c. seek approval of the revised ESPO Internal Audit Charter

Background

2. The Finance and Audit Subcommittee (the Subcommittee) has a delegated function 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 the Management Committee for review'.
3. 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) 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. A further requirement of the PSIAS is that an assessment of the internal audit function's overall conformance with the Standards is conducted once every five years by a qualified, independent assessor, or assessment team from outside the organisation.
7. The PSIAS also mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). This important governance document was last reported to, and approved by, the ESPO Management Committee at its meeting on 28 February 2017. Although there haven't been any changes to the PSIAS, it is considered prudent to review and refresh the Charter to send as evidence to the external assessor. Revised global Internal Auditing Standards were launched in January but it will be some time before they are interpreted into revised PSIAS.

Planning methodology

8. 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.
9. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - i. Consulting on emerging risks, planned changes and potential issues with the Director and the Leadership Team and the Consortium Treasurer and Secretary.
 - ii. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - iii. Identification and evaluation of the robustness of other forms of assurance received including reviewing the Independent Auditor's Report
 - iv. Comparisons against similar purchasing consortia audit plans.
 - v. 'Horizon scanning' new and emerging risks from professional and industry sources
 - vi. The risks to critical 'business as usual' systems when focus shifts elsewhere
10. Part of the plan requires annual audits on key elements of the financial and IT systems.

11. 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 coverage, 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 2024-25

12. The attached plan for 2024-25 (Appendix 1) 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.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2024-25 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 escalated to the Management Committee for review dependent on timing. Specific re-testing is undertaken later in the year to prove that control has improved and is embedded.

External Quality Assessment

19. The previous External Quality Assessment (EQA) of Leicestershire County Council's Internal Audit Service was undertaken in March 2018 and was an independent validation of the HoIAS' self-assessment. The results were reported to the Subcommittee at its meeting on 9 May 2018 with the overall conclusion that the Service generally conformed (the top rating) to the PSIAS.
20. In October, the Council commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. It was agreed that an assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise. This was the same methodology applied in 2018. The EQA will be undertaken remotely and will be conducted in two stages with a readiness check towards the end of January (with an opportunity to make any improvements) before a final and full report in March/April (to be reported to the Subcommittee at its meeting in October 2024). As well as submission of evidence, the assessor will conduct one to one interviews which may include the Chair of the Subcommittee and a selection of ESPO Officers or use a digital survey questionnaire to gain insight into the value and performance of the internal audit service.
21. Work is underway to provide the assessor with initial documentation for review.

Internal Audit Charter

22. The Internal Audit Charter (the Charter) establishes the Internal Audit function's position within ESPO, including the nature of the HoIAS' functional reporting relationship with the Finance and Audit Subcommittee, (the Subcommittee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the Subcommittee.
23. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a

recognised statement for review and acceptance by the Director of ESPO and the Consortium Treasurer and Secretary and for approval by the Subcommittee. It also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility and whether LCCIAS continues to be adequate and accomplish its objectives.

24. The Charter has been reviewed and minor changes have been made which are highlighted in yellow. It has 8 distinct sections: -

Section Content

- 1 Introduction
- 2 Mission of Internal Audit
- 3 Purpose (PSIAS definition of the internal audit activity)
- 4 The Core Principles
- 5 Definitions (including the Board and Senior Management)
- 6 Authority (afforded to the internal audit activity)
- 7 Responsibility (of the Committee, Officers and the HoIAS)
- 8 The scope of the internal audit activity

25. The Internal Audit Charter for ESPO (February 2024) is included as Appendix 2.

Resource Implications

26. 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 2024-25 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.
27. ESPO will not incur any charge for the independent external quality assessment of Leicestershire County Council's Internal Audit Service.

Conclusions

28. The detail of the 2024-25 internal audit plan is attached in Appendix 1 to this report. The plan has been discussed and agreed with the Consortium Treasurer, Consortium Secretary, and the Director of ESPO.
29. The Subcommittee will be informed of the outcome of the independent EQA. The revised Charter (Appendix 2) will form part of the assessment.

Recommendation

30. The Subcommittee is requested to:
- a. Approve the ESPO Internal Audit Plan 2024-25
 - b. Note the requirement for LCCIAS to have an independent external quality assessment
 - c. Approve the revised ESPO Internal Audit Charter

Equal Opportunities Implications

31. There are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

Background Papers

Report to ESPO Management Committee 28 February 2017 'The Internal Audit Charter for ESPO'

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=704&MId=4978&Ver=4>

Report to ESPO Finance and Audit Subcommittee 9 May 2018, 'Internal Audit Service Peer Review Outcome'

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1014&MId=5266&Ver=4>

The Public Sector Internal Audit Standards (2017)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/641252/PSAIS_1_April_2017.pdf

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Appendices

- Appendix 1 - ESPO Internal Audit Plan 2024-25
 Appendix 2 - ESPO Internal Audit Charter (February 2024)

			ESPO Internal Audit Plan 2024-25	APPENDIX 1
Reference	Control env't component	Entity	The indicative audit objective is to ensure that...	Risk Reg
ESPO 24/25 - A	Various	Continuation of work commenced in 2023-24	To complete any outstanding audits that overlap the financial year	N/A
ESPO 24/25 - B	Governance	Annual Governance - Areas for further development	Areas of the Annual Governance Statement highlighted for further development have been addressed (covering supplier code of conduct/ethical standards, legislative compliance, carbon strategy/targets, cyber security)	8 & also indirectly 2, 6, 20, 37, 82 & 83
ESPO 24/25 - C	Governance	Cyber Security	Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment - focus will be on the 18 actions that remained either outstanding or WiP during our 23/24 coverage	1, 8, 20, 79 & 82
ESPO 24/25 - D	Risk Management	Warehouse Expansion Project Board	Robust Governance and Management of Risk in the delivery in respect of the additional warehouse capacity at Grove Park (Critical friend project board role)	51, 91, 92 & 93 & also indirectly 1, 8, 20, 33 & 67
ESPO 24/25 - E	Risk management	Counter Fraud - NFI specific	Ensure relevant data is extracted at 30 September 2024, uploaded in October 2024 and assessment of output reports commenced in Feb 2025 with the overall objective of results being correctly interpreted and investigated on a risk-assessed basis and have due regard for a segregation of duties (<i>report of resultant findings in Q1/2 of 25/26</i>)	20 & 82 & indirectly 8 & 79
ESPO 24/25 - F	Risk Management	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 23/24	1, 5, 8, 20, 30, 34, 47, 48, 71, 79 & 82
ESPO 24/25 - G	Risk Management	Warehouse Expansion - Risk Mitigation Temporary Revised Ways of Working	Assessment of Temporary Health & Safety, Business Continuity & Security Risk Mitigation Procedures in place	1, 8, 20, 33, 91, 92 & 93 & indirectly 34, 47, 67 & 79
ESPO 24/25 - H	Risk Management	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. Legislative changes, continued adjustments as a result of legislative requirements, material changes to the 5-Year business strategy and other 'in year' matters requiring urgent attention	Various
ESPO 24/25 - I	Internal control	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	1, 5, 6, 8 & 20
ESPO 24/25 - J	Internal control	IT general controls (*)	The range of Information Technology General Controls (ITGC) expected by the External Auditor are well designed and consistently applied.	1, 5, 8, 20, 30, 34, 47, 48, 71, 79, 82 & 84
ESPO 24/25 - K	Internal control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	45, 46 & also indirectly 25 & 89
ESPO 24/25 - L	Governance	Procurement	Policies and procedures in place have due regard for legislative requirements and timeliness and appropriateness of decision making (Key focus being Transforming Public Procurement requirements and associated governance and training)	80, and indirectly 8, 32, 35 & 37
ESPO 24/25 - M	Risk Management	Enterprise Resource Planning Migration	Migration of ESPO's Enterprise Resource Planning (ERP) System to externally hosted software as a service offering	1,79, Indirectly 2, 5, 8, 10, 47, 48, 60, 82
ESPO 24/25 - N	Internal control	Temporary staff - pre employment & onboarding processes	All necessary pre employment and onboarding requirements have been undertaken	8, 33 Indirectly 5,20, 34, 55, 70, 82, 85
ESPO 24/25 - O	Risk Management	Safe Systems on Working - Warehouse Expansion	Revised safe systems of working are in place and staff are adequately trained prior to go live with revised warehouse layout	1, 8, 33 & 93 indirectly 34,
ESPO 24/25 - P	Internal control	Cashflow	Provide assurance that cashflow calculations are timely and accurately inform business decision making.	1 & 8 & indirectly 89
ESPO 24/25 - Q	Governance	Dividend Calculation	The dividend calculation is robust and accurate and has appropriate oversight and approval	8 & 60 & indirectly 89
ESPO 24/25 - R	Internal control	Counter Fraud - Fuel Cards	Fuel card spend is for authorised business purposes and aligns to policy	8, 20 indirectly 79 & 82
ESPO 24/25 - S	Internal control	Counter Fraud - Purchase Cards	Purchase card spend is appropriate and aligns to corporate policy	8, 20 indirectly 79 & 82
ESPO 24/25 - T	Governance	Value for Money Product Benchmarking	Policies and procedures to ensure ESPO continuously benchmark key product ranges against competitors and make timely adjustments where appropriate/economical to do so	2, 8, 10, 25, 41, 57, 66
ESPO 24/25 - U	Various	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - examples may include loss of customers/business, MTFS targets not being met, Failure to retain staff, staff sickness, energy related risks, major health & safety/legislative issue, warehouse issues, supply chain issues, adverse reputational issue, climate change, risks associated with ways of working	Various
ESPO 24/25 - V	N/A	Client management	Planning & research; progress meetings; servicing Committees; HoIAS requirements; confirming implementation of HI recommendations; External Audit liaison; advice	N/A
			Total days = 150	

(*) Annual audits undertaken that may assist the External Auditor

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ESPO - Internal Audit Charter (February 2024) : Contents

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Introduction

1. Introduction

1.1. The Public Sector Internal Audit Standards (the PSIAS), provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA) standards, and also additional requirements and interpretations for the UK public sector. The PSIAS were further revised from 1st April 2017. A Local Government Application Note (LGAN) developed by CIPFA (revised April 2019) provides practical guidance on how to apply the PSIAS.

The objectives of the PSIAS are to:

- a. define the nature of internal auditing within the UK public sector
- b. set basic 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.

1.2. The PSIAS mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive (the term is explained at 5.10 below) must periodically review the Charter and present it to senior management and the board for approval. Responsibility for, and ownership of, the Charter remains with the organisation and final approval of the Charter resides with the Board (the term is explained in 5.12 and 5.13 below).

2. The Mission of Internal Audit

2.1. To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

3. Purpose

3.1. Leicestershire County Council Internal Audit Service (LCCIAS) has adopted the Definition of Internal Auditing from the PSIAS. The definition explains the purpose of the internal audit activity: -

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It

helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The LGAN further explains that the organisation (ESPO's management) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (known as the control environment). Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

4. Core Principles for the Professional Practice of Internal Auditing

4.1. The Core Principles, taken as whole, articulate internal audit effectiveness.

4.2. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The Head of Internal Audit Service (HoIAS) is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

4.3. The Core Principles are: -

- a. Demonstrates integrity.
- b. Demonstrates competence and due professional care.
- c. Is objective and free from undue influence (independent).
- d. Aligns with the strategies, objectives, and risks of the organisation.
- e. Is appropriately positioned and adequately resourced.
- f. Demonstrates quality and continuous improvement.
- g. Communicates effectively.
- h. Provides risk-based assurance.
- i. Is insightful, proactive, and future-focused.
- j. Promotes organisational improvement.

5. Definitions

Independence

5.1. The PSIAS define independence as 'the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity requires the head of the activity to have direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence

must be managed at the individual auditor, engagement, functional and organisational levels’.

Objectivity

5.2. The PSIAS define objectivity as ‘an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels’.

Assurance Services

5.3. This is defined in the PSIAS as ‘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’.

5.4. LCCIAS conducts a wide range of engagements (assignments) designed to evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all aspects of ESPO’s control environment (including where it works in partnership with and leads on behalf of others).

5.5. LCCIAS aims to co-ordinate its assurance activity with any other identified internal and external providers of assurance services to ensure sufficient and proper coverage over the control environment and minimise duplication of efforts.

Consulting Services

5.6. This is defined in the PSIAS as ‘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’.

5.7. LCCIAS often acts in a consulting role and provides support for improvement in ESPO’s systems, procedures, and control processes without assuming management responsibility. Examples include advice, commentary on management’s intended control design and framework and potential implications of changes to systems, processes, and policies. The provision of such advice does not prejudice LCCIAS’ right to evaluate the established systems and controls at a later date. Other consulting could include counsel, facilitation, and training.

5.8. There is a specific public sector requirement that ‘Approval must be sought from the Board (see explanation in paragraphs 5.12 and 5.13 below) for any

significant additional consulting services not already included in the audit plan, prior to accepting the engagement. This is to ensure an appropriate balance of assurance (the primary internal audit function) and consulting activity.

- 5.9. The combined results and outcomes of assurance and consulting activities are fundamental to determining the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment.

The Chief Audit Executive

- 5.10. Although the PSIAS and LGAN have both adopted the original IIA Standards term 'Chief Audit Executive', it is recognised that this only describes a role, which at Leicestershire County Council (the Servicing Authority for ESPO) is performed by the Head of Internal Audit & Assurance Service in his capacity of Head of Internal Audit Service (HoIAS). Within this Charter, all references from hereon are to the HoIAS.

The Board and Senior Management

- 5.11. A public sector requirement of the PSIAS is for the Charter to define the terms 'Board' and 'Senior Management' for the purposes of internal audit activity. The LGAN advises the terms must be interpreted in the context of the governance arrangements within each individual organisation.

The Board

- 5.12. The PSIAS define the Board as 'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. This includes a supervisory board or a board of governors or trustees... 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

- 5.13. For ESPO, the Terms of Reference for the Finance and Audit Subcommittee (the Subcommittee) include a delegated function to, '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'. Consequently, at ESPO the Finance and Audit Subcommittee (the Subcommittee) will perform the function of the Board. Within this Charter, all references from hereon are to the Subcommittee.

Senior Management

- 5.14. There is not a specific definition of 'senior management' in either the PSIAS or the LGAN. However, the PSIAS require 'the HoIAS to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals', and the LGAN advises that 'an

effective internal audit service should understand the whole organisation, its needs, and objectives’.

- 5.15. To fully understand and be able to fulfill its responsibilities, the HoIAS and his/her team requires unfettered access to not only the Director of ESPO (the Director) but also, given the role of the Servicing Authority, to both the Consortium Secretary (the Secretary) and Consortium Treasurer (the Treasurer).
- 5.16. Consequently, at ESPO, the three roles of Director, Secretary and Treasurer (collectively referred to as the Delegated Officers (the Officers)) will perform the functions of Senior Management. Within this Charter, all references from hereon are to the Officers.

6. Authority

Statutory and Professional Requirements for internal audit activity

- 6.1. ESPO is a local authority purchasing consortium made up of six local authorities for which the Council is the Servicing Authority. The Accounts and Audit Regulations 2015 (the Regulations), require 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’.
- 6.2. Section 151 of the Local Government Act 1972, states that every local authority should ‘*make arrangements for the proper administration of their financial affairs, and shall secure that one of their officers has responsibility for the administration of those affairs*’. CIPFA defines that ‘*proper administration*’ should include ‘*compliance with the statutory requirements for accounting and internal audit*’. ESPO’s Constitution (Financial Regulation Rule 15(a)) determines that ‘Responsibility for arranging a continuous internal audit of the ESPO’s financial management arrangements will be delegated by the Management Committee to the Consortium Treasurer’.
- 6.3. The relationship between the head of the internal audit activity, namely the HoIAS, and the Treasurer (the Chief Financial Officer (CFO) of the Council) is of particular importance in local government. The CIPFA Statement on the Role of the CFO in public service organisations (September 2023) states that the CFO:
- a. works closely with the organisation’s internal audit team, and recognises the team’s role in providing assurance in respect of the organisation’s governance, risk management and internal control frameworks
 - b. acknowledges the internal audit team’s role in helping the organisation to learn from others and to improve continuously the way that it works
 - c. supports the head of internal audit in the fulfilment of their role but does not seek to direct or to control the work of the internal audit team.

6.4. At ESPO, the Treasurer: -

- a. In conjunction with the Director and the Secretary contributes to and agrees the overall annual internal audit plan
- b. In conjunction with the Director receives periodic updates on progress and performance against the plan and approves major variations before they are reported to the Committee
- c. commissions (or approves) unplanned audits
- d. is the HoIAS' line manager and conducts his/her annual performance and development review;
- e. In conjunction with the Director determines LCCIAS resources required for ESPO.

Access

6.5. PSIAS 1000 requires the Charter to, *'establish internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities'*.

6.6. ESPO's Constitution Financial Regulations Rule 15(b) states that the Treasurer or an authorised representative (interpreted to be any LCCIAS internal auditors) has authority to:-

- a. enter any ESPO building or land at all reasonable times;
- b. have access to all records, documents and correspondence relating to any transactions of ESPO;
- c. receive such explanations as he or she considers necessary on any matter under examination;
- d. require any employee of ESPO to produce cash, stores or any other ESPO property under his/her her control.

6.7. Whilst not explicit, Rule 15(b) is a conduit to seeking agreement to access any relevant partner organisations' records.

Organisational independence

6.8. The PSIAS require that *'reporting and management arrangements must be put in place that preserves the HoIAS (and LCCIAS)' independence and objectivity, in particular with regard to the principle that they must remain independent of the audited activities'*. This requirement aligns to CIPFA's Statement on the Role of the Head of Internal Audit (2019) that *'organisations need to ensure that where the HoIAS is an employee, he or she is 'independent of operational management and is seen to provide objective views and opinions'*.

6.9. PSIAS 1110 on Organisational Independence states that *'the HoIAS must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The HoIAS must confirm to the Subcommittee, at least annually, the organisational independence of the internal audit activity'*. An additional public sector requirement of PSIAS 1110 is that *'The HoIAS must also establish effective communication with, and have free and*

unfettered access to, the chief executive (or equivalent) and the chair of the audit committee'.

- 6.10. The HoIAS reports to the Treasurer and to the Subcommittee (reports are agreed with the Director beforehand). The HoIAS has direct access to ESPO's organisational management team, the Secretary and, if required, to the Chair of the Subcommittee.

In accordance with PSIAS 1110A.1, there is acknowledgement amongst these parties that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

7. Responsibility

This section of the Charter summarises the key responsibilities of the Subcommittee, the Officers and the HoIAS and LCCIAS internal auditors

The Subcommittee's responsibilities

- 7.1. The Subcommittee has delegated decision making authority. As such, it will undertake the following key duties within the PSIAS, receive and approve reports on: -

- a. the internal audit charter
- b. the risk based internal audit plan
- c. communications from the HoIAS on internal audit performance relative to its plan and other matters
- d. an annual confirmation from the HoIAS with regard to the organisational independence of the internal audit activity
- e. the HoIAS' annual report, including the opinion on the control environment, a statement on conformance to the PSIAS and the results of the Quality Assurance and Improvement Programme – QAIP (see 5.4a)
- f. whether there are inappropriate scope or resource limitations, determined by making appropriate enquiries of the Officers and the HoIAS.

The Officers' responsibilities

- 7.2. The effectiveness of the internal audit activity relies upon the full co-operation of Senior Management. Under this Charter, the Officers will co-operate with the HOIAS in the following: -

- a. providing input to the annual risk based internal audit plan
- b. agreeing Terms of Engagement within agreed timescales
- c. sponsoring each audit at Assistant Director level
- d. providing LCCIAS with full support and co-operation including access to relevant records and personnel
- e. responding to LCCIAS reports within agreed timescales;

- f. ensuring that agreed recommendations are implemented within timescales;
- g. providing assurance that management actions have been implemented
- h. notifying the Treasurer of any significant changes in the control environment and proposed changes and developments in systems;
- i. notifying the Treasurer and Secretary of all suspected or detected fraud, corruption or impropriety.

The HoIAS' responsibilities

Code of Ethics

7.3. The HoIAS must ensure that LCCIAS internal auditors conform to the Code of Ethics (the Code), which promotes an ethical and professional culture and comprises both principles that are relevant to the profession and practice of internal auditing, and rules of conduct that describe behaviour norms and guide the ethical conduct expected of internal auditors. The Code does not supersede or replace either individuals' own professional bodies' codes of ethics or those of the Council (LCCIAS' employer). A PSIAS public sector requirement is that LCCIAS internal auditors must have regard to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

International Standards for the Professional Practice of Internal Auditing

7.4. The HoIAS must ensure that there is a robust framework supporting the activity of internal audit and that LCCIAS' internal auditors are trained and guided, and their performance monitored, to ensure they conform to the detailed attribute and performance standards within the PSIAS.

7.5. LCCIAS will conform to the full range of the standards.

8. The Scope of Internal Audit Activity

8.1. The Officers are responsible for establishing and maintaining appropriate governance, risk management and control arrangements (i.e. the control environment), for not only ESPO activities, but also for those provided in conjunction with, and/or on behalf of its partners. LCCIAS' remit extends to ESPO's entire control environment. However, limitations on internal audit resource requires the HoIAS to understand and take account of the position with respect to ESPO's other sources of assurance (internal and external) and plan internal audit work accordingly so that activity can be co-ordinated, ensuring proper coverage and minimising duplication of effort.

8.2. Internal audit activity for ESPO (& where appropriate its partners) includes: -

- providing assurance services i.e. reviewing, appraising and reporting on: -
 - the soundness, adequacy and application of governance processes, risk management frameworks and internal controls;

- the extent to which assets are accounted for and safeguarded from losses of all kinds
- the suitability and reliability of financial and other data developed;
- reviewing compliance and conformance to rules, regulations, laws, codes of practice, guidelines and principles
- the accuracy and completeness of grant claims
- providing consulting services;
- undertaking investigations, studies, reviews or assignments as directed (or approved) by the Officers;

The role of internal audit in the compilation of the annual governance statement

8.3. The HoIAS delivers an annual internal audit opinion and report that can be used by ESPO to inform its governance statement. Should there be any non-conformance with the Code of Ethics or the Standards and it impacts the overall scope or operation of the internal audit activity, the HoIAS must disclose the non-conformance and the impact to Senior Management and the Subcommittee and be considered for inclusion in the governance statement.

The role of internal audit in fraud and corruption

8.4. The Officers are responsible for developing and maintaining a control environment that mitigates the risk of fraud and corruption

8.5. The HoIAS is responsible for reviewing and evaluating ESPO's approach to managing the risks of fraud, bribery and corruption. This includes: -

- Ensuring that strategies, policies and procedures are kept up to date and align with relevant codes of conduct
- Ensuring adherence to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption
- Assisting with developing training and guidance on fraud awareness
- Coordination of ESPO's involvement in national anti-fraud projects

8.6. LCCIAS does not have responsibility for the detection or prevention of fraud and corruption, but it considers those risks when undertaking its activities. The independence of the internal audit activity leaves it well placed to undertake (or guide) any investigations that are required. The HoIAS will determine the level and scope of LCCIAS' involvement including delegating the investigation of specific allegations to ESPO itself following an assessment of risk and financial impact.

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

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