



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 9 JUNE 2015**

**AGENDA ITEM NO. 7**

**ANNUAL INTERNAL AUDIT PLAN 2015-16**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2015-16.

**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 these affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to the Public Sector Internal Audit Standards 2013 (the PSIAS).
4. The PSIAS require the Head of Internal Audit (at LCCIAS this is the Head of Internal Audit Service – HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the organisation's control environment (the framework of governance, risk management and control). In order to do this, 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. Part of the role of the Finance & Audit Subcommittee (the Subcommittee) is to review audit reports. The Subcommittee should receive and note the annual internal audit plan; regular progress reports against the plan and an annual report on work undertaken containing the annual opinion, a summary of work supporting the opinion and information on the internal audit function's effectiveness.

## **Planning methodology**

6. The Director of ESPO fully acknowledges the roles and responsibilities of his Senior Management Team to identify and manage risk and where it is required, to 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 primarily based on the contents of the Corporate Risk Register, Major Risk Records, governance arrangements for achieving the Four Year Business Strategy and the Annual Governance Statement.
7. 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 of ESPO (the Director) and his Senior Management Team, the Consortium Treasurer and Secretary and the External Auditor
  - 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. Where possible 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
7. Part of the plan requires annual audits on key elements of the general ledger and IT systems. These audits are undertaken in consultation with ESPO's External Auditors (PWC) to assist in their responsibility to form an opinion that ESPO's financial accounts are not materially misstated. PWC determines that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment and to allow them to place reliance on LCCIAS work.
8. Any other significant projects including ICT or information governance developments would be targeted for audit. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations and an allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc).

9. The approach to audits can be categorised as: -
  - a. Assurance type –
  - b. Consulting type -
  - c. Investigatory –

### **The internal audit plan 2015-16**

10. The attached plan for 2015-16 (Appendix 1) contains a wide scope of audits that will allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's control environment (its framework of governance, risk management and control). It hasn't been possible this year to compare the scope of ESPO's plan.
11. A small amount of resource has been planned to finalise 2014-15 audits. A number of audits not started in 2014-15 are deemed to be of sufficient importance to be included in 2015-16.
12. The first column indicates which component of the control environment the audit primarily matches (there is often overlap) and the third column is an attempt to match to ESPO's current Key Risk Register (again there is some overlap)
13. New audits this year include: -
  - a. A detailed evaluation of the components of the control environment to ensure they satisfy requirements in new Accounts and Audit Regulations from April 2015
  - b. The governance framework audit may include a review of effectiveness of a particular committee
  - c. How robust is information to management to make key decisions e.g. on developing or ending frameworks
  - d. How transparent is ESPO compared to its competitors
  - e. Do the alternative warehouse arrangements provide value for money and don't incur risks of losses or liability
  - f. Is the mechanism for distributing surplus robust
  - g. Are new transport arrangements providing value for money

### **Progressing the Audit Plan**

14. 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.
15. On completion of each audit a report, findings will be discussed with the appropriate risk owner (Assistant Director) before issuing a report to the Director of ESPO and the Consortium Treasurer. The opinions reached, along with summary findings are reported each quarter to the Subcommittee.

16. If any audit produces a 'high importance' recommendation, then the full report is shared with the Subcommittee, and specific re-testing is undertaken later in the year to prove that control has actually improved and is embedded.

### **Resources Implications**

17. The budget for the provision of the internal audit service (£52,000) is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. Plan days for 2015-16 have been retained at 185. This coverage should enable the HoIAS to provide reasonable assurance to the Consortium Treasurer that risks are being managed.

### **Conclusion**

18. The details of the 2015-16 internal audit plan, including a summary of the days allocated, is attached in Appendix 1 to this report. The plan has been presented to the Consortium Treasurer, Consortium Secretary and the Director of ESPO for comments and approval.

### **Recommendation**

19. The Subcommittee 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 2015-16.

### **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**

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

### **Appendices**

Appendix 1 - Internal Audit Plan 2015-16