



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 6 JUNE 2016**

**AGENDA ITEM NO.**

**ANNUAL INTERNAL AUDIT PLAN 2016-17**

**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 2016-17.

**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 Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of ESPO's control environment (the framework of governance, risk management and control). The HoIAS' opinion forms part of the Annual Governance Statement which supports ESPO's financial accounts. 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. 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 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 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 and the Leadership 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 financial 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).

### **The internal audit plan 2016-17**

9. The attached plan for 2016-17 (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 that of one of ESPO's competitors.
10. A small amount of resource will be required to finalise 2015-16 audits.
11. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap) and the third column is an attempt to match to ESPO's current Key Risk Register (again there is some overlap)
12. The 2016-17 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 recognised 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 and Consortium Treasurer and these would be reported to the Subcommittee.
13. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners (Assistant Director) in advance of each audit.

### **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, 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 Subcommittee at its spring and early summer meetings.
16. If any audit produces a 'high importance' recommendation, then the full report would be 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. In order to meet a small rise in charges, it has been necessary to reduce coverage by 10 days to 175. This coverage should enable the HoIAS to provide reasonable assurance to the Consortium Treasurer that risks ESPO is facing are being managed.

**Conclusion**

18. The details of the 2016-17 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**

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 2016-17.

**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 - ESPO Internal Audit Plan 2016-17