



## **ESPO FINANCE & AUDIT SUBCOMMITTEE – 12 FEBRUARY 2020**

### **REPORT OF THE CONSORTIUM TREASURER**

#### **ANNUAL INTERNAL AUDIT PLAN 2020-21**

##### **Purpose of Report**

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2020-21.

##### **Background**

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
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 (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 4 March 2020.

### **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 the Annual Governance Statement.
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 incoming 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 are undertaken in consultation with ESPO's External Auditors to assist in their planning of their annual audit to form an opinion that ESPO's financial accounts are not materially misstated. In the past, the External Auditor has determined that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment.
10. Any other significant projects for example ICT or Business Growth developments would be targeted for audit. GDPR compliance will 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 2020-21**

11. The attached plan for 2020-21 (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 2019-20 audits.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2020-21 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 Management Committee.
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 the full report 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 2020-21 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 2020-21 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 2020-21 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**

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### **Appendices**

Appendix - ESPO Internal Audit Plan 2020-21