



ESPO MANAGEMENT COMMITTEE – 24 JUNE 2020

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2019-20

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Management Committee (the Committee) with an annual report on internal audit work conducted during 2019-20.

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. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS) to provide internal audit for ESPO.
3. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provide at section 5 'Internal Audit' 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'.
4. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) which were last updated in April 2017. Guidance on applying the standards is provided in an accompanying CIPFA Local Government Application Note which was last updated in 2019.
5. The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Internal Audit Charter for ESPO (re-approved by Management Committee 28 February 2017) defines the Finance & Audit Subcommittee (the Subcommittee) as 'the Board'. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the production of the draft Annual Governance Statement (AGS) which will be reported to Management Committee at its meeting scheduled 16 September 2020.
6. However, whilst the Subcommittee received and noted the annual report at its meeting on 20 May 2020, it does not have any decision-

making authority, and so the HoIAS' annual report has to be approved by Management Committee.

7. The PSIAS require the HoIAS' annual report to include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work undertaken with the work that was planned, including a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

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8. At the meeting of the Finance & Audit Subcommittee on 20 May 2020, Members requested the HoIAS to: -
 - a. provide information on the individual audit assurance ratings – these are now contained in Annex 2
 - b. expand on the rationale for the overall opinion

Individual audit engagements provide targeted micro-assurance. The overall opinion is different; it is macro-assurance over a defined period (a financial year). This requires the HoIAS to bring these assurance threads together using themes, trends, evidence and professional judgement to provide holistic, strategic insight into the organisation. Following the Subcommittee meeting, the HoIAS referred to October 2019 guidance from the Institute of Internal Auditors, which acknowledges that currently there are no criteria guides for Heads of Internal Audit that would enable standardisation between organisations. Each Head is free to define the criteria and language for their own audit opinion. The Institute is working to progress a solution.

Nevertheless, the guidance offers an example. The HoIAS has reconsidered the 'reasonable' assurance opinion reported to the Subcommittee. He considers that the guidance definition of 'substantial' assurance better fits ESPO's position namely: -

There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.

Backed up by: -

- *no individual audit engagement classed as limited or no assurance*
- *occasional medium risk rated weaknesses identified in individual audit engagements*
- *internal audit has confidence in managements attitude to resolving identified issues.*

9. The annual report for 2019-20 is provided in the **Appendix**. The report includes the amended HoIAS opinion.

Prior to the onset of the coronavirus, ESPO's control environment was in a steady state. The build-up and immediate impact of the virus was significant, adverse in nature and unique in character. However, no significant governance, risk management internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

The opinion will also be contained in the draft AGS.

10. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines types of audits, assurance ratings, the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
11. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given.
12. **Annex 3** shows the HoIAS April 2020 self-assessment of conformance to the PSIAS.
13. The HoIAS has chosen not to review Quality Assurance & Improvement Programme (QAIP) until the Service is re-imagined as part of developing its 'new normal' state.
14. Headlines from the report are: -
 - a. Despite the impact of the coronavirus late in the financial year, the HoIAS considered ESPO's control environment remained adequate and effective
 - b. All assurance audits conducted returned substantial assurance ratings.
 - c. Most work was completed by the date of this report, with a relatively small carry over
 - d. The HoIAS self-assessed that LCCIAS continues to generally conform to the PSIAS.

Resources Implications

15. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
16. 170 of the planned 175 days was achieved. The total charge to ESPO was £51,625.

Recommendations

That the Management Committee approves the Internal Audit Service annual report for 2019-20.

Equal Opportunities Implications

There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Background Papers

Constitution of the ESPO Management Committee
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
Annual Internal Audit Plan 2019-20
Report to Finance & Audit Subcommittee 20 May 2020

Officer to Contact

Neil Jones
Head of Internal Audit & Assurance Service

Telephone 0116 305 7629
Email Neil.Jones@leics.gov.uk

Appendices

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| Appendix | Internal Audit Service Annual Report 2019-20 |
| Annex 1 | The HoIAS Annual Opinion on the overall adequacy and effectiveness of ESPO's control environment |
| Annex 2 | Summary of Internal Audit Service work 1 April 2019 to 15 June 2020 from which the overall opinion is derived |
| Annex 3 | Summary self-assessment of conformance to PSIAS (May 2020) |