

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2021-22**

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Background

During the financial year 2021-22, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit activity to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS conforms to the Public Sector Internal Audit Standards (the PSIAS) revised with effect from April 2017. The PSIAS require the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definitions of the types of audits undertaken and of the control environment are to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro-assurance** over a defined period (financial year 2022-22) and combines:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and where appropriate the individual audit opinion. Individual audit engagements provide targeted **micro-assurance**.
- Professional judgement of the HoIAS based on his knowledge, experience and
- evaluation of other related activities. This provides a holistic, strategic insight into ESPO's control environment.
- The HoIAS' views on the ESPO's responses to the coronavirus.

The results of the above, when combined, form the basis for the opinion on ESPO's control environment. However, the caveat at the very end of this document explains what internal control cannot do. i.e., no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

Governance related internal audit work

Advice was provided on the compilation of the Annual Governance Statement for 2020-21. Good governance principles were found to have been applied in the compilation. The HoIAS is part of a group comprising the ESPO Director, the Assistant Director Finance, the Consortium Treasurer, and Consortium Secretary which review the content of the draft Annual Governance Statement.

The HoIAS and the designated Audit Manager attend the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. The Audit Manager deputised at a Chief Officer Group meeting providing a different perspective.

The HoIAS and the Audit Manager have regular discussions with the ESPO Director and the Leadership Team, the Consortium Treasurer, and where required the Consortium Secretary, on governance issues and related aspects of audits.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

An audit of cyber security arrangements returned only a partial assurance rating. ESPO management accepted all findings and is working on implementing recommendations. A follow up audit is planned in 2022/23.

Advice continues to be given in respect of the warehouse project, with the Audit Manager being a critical friend of the project board. In addition, 'Critical friend' membership of the website project board by the Audit Manager was well received and facilitated good governance, the management of risk and control advice.

An assessment of any matches identified in the National Fraud Initiative results was completed and no material issues found.

The HoIAS monitors members engagement with ESPO's risk registers through Management Committee meetings and an audit of the risk management process resulted in a substantial audit opinion, but with a need to update the policy and encourage member engagement on specific risks.

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken including those of ESPO's General Financial Systems, IT General Controls and work provided by the Servicing Authority (H&S). These audits are still being concluded, however from the work completed to date there is nothing to indicate this would adversely affect the overall opinion. The Financial Systems audit will also enable us to complete our testing in respect of a legacy 20/21 partial assurance rating in respect of credit control and enable us to report back to the next relevant committee.

Control advice in respect of changes to the processing of expense payments was given as part of 'emerging risks' and an audit of the process is nearing completion.

Advisory work was undertaken in respect of two attempted bank mandate frauds and a cyber concern, together with a HR issue.

The annual rebates income audit commenced but could not be completed. It would have benefitted from site visits which was not possible in 21/22 but is planned in 22/23.

The HoIAS' views on the ESPO's responses to the coronavirus

Through review of reports and the AGS and attendance at Committee, the HoIAS is satisfied ESPO Management has engaged and protected its employees and customers.

Aside from the partial assurance rating given following the audit of cyber security arrangements, no other significant governance, risk management or 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.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

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.

Consulting audit

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. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Continued.....

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

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