



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 14 FEBRUARY 2023

**ANNUAL INTERNAL AUDIT PLAN 2024-25, EXTERNAL QUALITY
ASSESSMENT AND INTERNAL AUDIT CHARTER**

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is to:
 - a. seek approval of the ESPO Internal Audit Plan 2024-25.
 - b. provide brief details on an independent external quality assessment of Leicestershire County Council's Internal Audit Service
 - c. seek approval of the revised ESPO Internal Audit Charter

Background

2. The Finance and Audit Subcommittee (the Subcommittee) has a delegated function to, 'receive and approve Internal Audit annual reports (annual plans, progress and annual reports, and the Internal Audit Charter), escalating high importance recommendations and significant governance concerns to the Management Committee for review'.
3. 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) to provide internal audit for ESPO. LCCIAS should 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. A further requirement of the PSIAS is that an assessment of the internal audit function's overall conformance with the Standards is conducted once every five years by a qualified, independent assessor, or assessment team from outside the organisation.
7. The PSIAS also mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). This important governance document was last reported to, and approved by, the ESPO Management Committee at its meeting on 28 February 2017. Although there haven't been any changes to the PSIAS, it is considered prudent to review and refresh the Charter to send as evidence to the external assessor. Revised global Internal Auditing Standards were launched in January but it will be some time before they are interpreted into revised PSIAS.

Planning methodology

8. 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 Governance Reporting.
9. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to ESPO using methods including: -
 - i. Consulting on emerging risks, planned changes and potential issues with the Director and the Leadership Team and the Consortium Treasurer and Secretary.
 - ii. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - iii. Identification and evaluation of the robustness of other forms of assurance received including reviewing the Independent Auditor's Report
 - iv. Comparisons against similar purchasing consortia audit plans.
 - v. 'Horizon scanning' new and emerging risks from professional and industry sources
 - vi. The risks to critical 'business as usual' systems when focus shifts elsewhere
10. Part of the plan requires annual audits on key elements of the financial and IT systems.

11. Any other significant projects for example material changes to the 5-Year Business Strategy or significant ICT developments would be targeted for audit. GDPR compliance continues to be covered as part of Leicestershire County Council's audit coverage, 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 2024-25

12. The attached plan for 2024-25 (Appendix 1) 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.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2024-25 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 relevant Committee dependent on timing.
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 details would be shared with the Subcommittee and escalated to the Management Committee for review dependent on timing. Specific re-testing is undertaken later in the year to prove that control has improved and is embedded.

External Quality Assessment

19. The previous External Quality Assessment (EQA) of Leicestershire County Council's Internal Audit Service was undertaken in March 2018 and was an independent validation of the HoIAS' self-assessment. The results were reported to the Subcommittee at its meeting on 9 May 2018 with the overall conclusion that the Service generally conformed (the top rating) to the PSIAS.
20. In October, the Council commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. It was agreed that an assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise. This was the same methodology applied in 2018. The EQA will be undertaken remotely and will be conducted in two stages with a readiness check towards the end of January (with an opportunity to make any improvements) before a final and full report in March/April (to be reported to the Subcommittee at its meeting in October 2024). As well as submission of evidence, the assessor will conduct one to one interviews which may include the Chair of the Subcommittee and a selection of ESPO Officers or use a digital survey questionnaire to gain insight into the value and performance of the internal audit service.
21. Work is underway to provide the assessor with initial documentation for review.

Internal Audit Charter

22. The Internal Audit Charter (the Charter) establishes the Internal Audit function's position within ESPO, including the nature of the HoIAS' functional reporting relationship with the Finance and Audit Subcommittee, (the Subcommittee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the Subcommittee.
23. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a

recognised statement for review and acceptance by the Director of ESPO and the Consortium Treasurer and Secretary and for approval by the Subcommittee. It also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility and whether LCCIAS continues to be adequate and accomplish its objectives.

24. The Charter has been reviewed and minor changes have been made which are highlighted in yellow. It has 8 distinct sections: -

Section Content

- 1 Introduction
- 2 Mission of Internal Audit
- 3 Purpose (PSIAS definition of the internal audit activity)
- 4 The Core Principles
- 5 Definitions (including the Board and Senior Management)
- 6 Authority (afforded to the internal audit activity)
- 7 Responsibility (of the Committee, Officers and the HoIAS)
- 8 The scope of the internal audit activity

25. The Internal Audit Charter for ESPO (February 2024) is included as Appendix 2.

Resource Implications

26. 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 2024-25 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.
27. ESPO will not incur any charge for the independent external quality assessment of Leicestershire County Council's Internal Audit Service.

Conclusions

28. The detail of the 2024-25 internal audit plan is attached in Appendix 1 to this report. The plan has been discussed and agreed with the Consortium Treasurer, Consortium Secretary, and the Director of ESPO.
29. The Subcommittee will be informed of the outcome of the independent EQA. The revised Charter (Appendix 2) will form part of the assessment.

Recommendation

30. The Subcommittee is requested to:
- a. Approve the ESPO Internal Audit Plan 2024-25
 - b. Note the requirement for LCCIAS to have an independent external quality assessment
 - c. Approve the revised ESPO Internal Audit Charter

Equal Opportunities Implications

31. There are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

Background Papers

Report to ESPO Management Committee 28 February 2017 'The Internal Audit Charter for ESPO'

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=704&MId=4978&Ver=4>

Report to ESPO Finance and Audit Subcommittee 9 May 2018, 'Internal Audit Service Peer Review Outcome'

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1014&MId=5266&Ver=4>

The Public Sector Internal Audit Standards (2017)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/641252/PSAIS_1_April_2017.pdf

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Appendices

- Appendix 1 - ESPO Internal Audit Plan 2024-25
 Appendix 2 - ESPO Internal Audit Charter (February 2024)