



## **ESPO FINANCE & AUDIT SUBCOMMITTEE – 12 FEBRUARY 2025**

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

#### **ANNUAL INTERNAL AUDIT PLAN 2025-26 & PLANS FOR IMPLMENTING NEW INTERNAL AUDIT STANDARDS**

#### **Purpose of Report**

1. The purpose of this report is to: -
  - a. seek the Finance and Audit Sub-Committee's approval of the ESPO Internal Audit Plan 2025-26
  - b. inform the Subcommittee of the Head of Internal Audit Service's plans for implementing the Global Internal Audit Standards (GIAS) in the UK Public Sector from 1 April 2025.

#### **Background**

2. The Finance & 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.
4. The outcome of an independent external quality assessment undertaken in the Spring of 2024 was that LCCIAS conforms to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS will be replaced with new internal audit standards from 1 April 2025 and details of the transition are explained later in this report.
5. 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.

6. 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).

### **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 Governance Reporting.
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.
  - 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 including reviewing the External Auditor's Report
  - d. Where available, 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.
10. Any other significant projects for example material changes to ESPO's business risks 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, forming the annual

opinion and reports etc) and progressing any high importance recommendations.

11. The Consortium Treasurer and Secretary are consulted.

### **The Internal Audit plan 2025-26**

12. The plan for 2025-26 is attached at **Appendix 1**. It 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.
13. The first column indicates which component of the control environment the audit primarily matches (there is quite often overlap).
14. The 2025-26 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 Secretary 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 Sub-Committee 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 Sub-Committee 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.

**Plans for implementing the Global Internal Audit Standards in the UK Public Sector from 1 April 2025**

19. At its meeting on 30 October 2024, the Sub-Committee was advised that new GIAS were being introduced from January 2025. The UK public sector Internal Audit Standards Advisory Board had determined the new GIAS were applicable to the internal audit of UK public sector bodies (subject to a small number of additional requirements and interpretations) and would replace the current Public Sector Internal Audit Standards (PSIAS) but from a later date, 1 April 2025. The Subcommittee received two documents which at the time were being consulted on:
- a. **The Application Note: Global Internal Audit Standards in the UK Public Sector.** This provides interpretations of GIAS requirements in the specific circumstances which are expected to apply across the UK public sector, and some additional requirements which are essential for the practice of internal audit in the UK public sector but are not set out in the GIAS. They include specific mention of requirements for annual opinions and governance statements, and a presumption that Heads of Internal Audit will be both professionally qualified and have appropriate public sector skills and knowledge.
  - b. **Code of Practice for the Governance of Internal Audit in UK Local Government.** This was proposed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to meet a GIAS ‘essential condition’ relating to Governing the Internal Audit Function. The Code would apply to all principal authorities in UK local government. By ensuring effective arrangements for internal audit, authorities would support the best use of their resources and robust governance. CIPFA proposed that the Code applied to the governance of internal audit and is the responsibility of those charged with governance within a local government body. The Code sets out the conditions for internal audit, consistent with existing CIPFA guidance and governance within the sector. For heads of internal audit, the Code would meet the same objectives as the ‘essential conditions’ set out in the GIAS, but in a way that is appropriate for UK local government.
20. The HoIAS responded to both consultations supporting their content and proposals. In November CIPFA issued a Better Governance Forum Audit Committee Update, an extract of which is attached at **Appendix 2**. The update briefly introduces the forthcoming changes to the GIAS (pages 4 and 5) and the proposed Code of Practice (bottom of page 5 and top of page 6). The document considers the impact on audit committee members and suggested questions that members might wish to ask are included.
21. The Application Note: Global Internal Audit Standards in the UK Public Sector was approved in December to be in force from 1 April 2025. Auditors working in the UK public sector must follow the requirements of the GIAS subject to the

interpretations and additional requirements set out in the Application Note. When expressing conformance with standards, auditors must be clear that they are conforming to the GIAS subject to the Application Note and must refer to this as conformance with GIAS in the UK Public Sector.

22. Whilst 1 April is the effective date for the new standards, internal audit teams will not be expected to demonstrate full conformance on this date. They must work in accordance with the new standards from 1 April and by doing so will build up their conformance. At the time of compiling this report, guidance on implementation was continuing to be provided. CIPFA has published a suggested 'Timeframe for the implementation of the GIAS and the Application Note'. Whilst this guidance will help the HoIAS and members of the audit management team understand the changes to internal audit standards and the transition the team will be making at various points during the next year, it is useful to share with the Subcommittee and so it is included as **Appendix 3**. In addition to formal guidance and webinars, the HoIAS continues to attend engagement webinars and share templates and information with his Head of Internal Audit colleagues.
23. There are a number of new standards to review and implement and the HoIAS is completing a 'gap analysis' reviewing current processes against the 15 GIAS Principles, identifying any obvious gaps and creating a plan of actions. Additionally, training and development plans and communications plans will be required, and methodologies will need to be reviewed.
24. The HoIAS is also compiling/revising some key governance documents that will support the internal audit function for ESPO i.e. a new requirement for an internal audit strategy and a new requirement to add a mandate for internal audit to a revised internal audit charter. These will require approval from the Director of ESPO and the Consortium Treasurer and Secretary and the Subcommittee by 1 April 2025. The Subcommittee is therefore asked to delegate this approval to the relevant officers following consultation with the Subcommittee Chair.
25. The proposal for a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) was approved in January, but at the time of compiling this report a revised, final version had not been issued. The Code will be referenced in the revised charter, and there will be a requirement for an annual review of the Code with conformance reported in the Annual Governance Statement (or equivalent governance statement). The Code will also require adoption by the Director of ESPO and the Leadership Team, the Consortium Treasurer and Secretary, and the Subcommittee.

### **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 2025-26 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. The impact of implementing new internal audit standards as they apply to ESPO will mostly occur in the current financial year and will be reflected in a larger amount of time spent on corporate governance requirements.

### **Conclusions**

28. The detail of the 2025-26 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. Work to implement new internal audit standards is ongoing.

### **Recommendation**

30. The Subcommittee is requested to:
  - a. Approve the ESPO Internal Audit Plan 2025-26
  - b. Note the Head of Internal Audit Service's plans for implementing the Global Internal Audit Standards in the UK Public Sector from 1 April 2025.
  - c. Delegate approval of the internal audit strategy and internal audit charter to the Director of ESPO and the Consortium Treasurer and Secretary, following consultation with the Chairman of the Subcommittee.

### **Equal Opportunities Implications**

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

### **Background Papers**

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

Reports to ESPO Finance & Audit Subcommittee

- 30 October 2024 – Internal Audit Progress Against the 2024-25 Plan and Internal Audit Updates

- Outcome of the Independent External Quality Assessment of LCCIAS
  - Consultations on proposed changes to the Public Sector Internal Audit Standards (PSIAS) and proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government
- 12 February 2024 – Annual Internal Audit Plan 2024-25, External Quality Assessment and Internal Audit Charter

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### **Appendices**

Appendix 1	ESPO Internal Audit Plan 2025-26
Appendix 2	Extract from Audit Committee Update (November 2024)
Appendix 3	'Timeframe for the implementation of the GIAS and the Application Note'

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