

ESPO

Leicestershire County Council Internal Audit Service Annual Report 2011-12 July 2012



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LEICESTERSHIRE COUNTY COUNCIL

INTERNAL AUDIT SERVICE

ANNUAL REPORT 2011-12

Overall Opinion

The CIPFA Code of Practice for Internal Audit in Local Government in the UK requires the Head of Internal Audit to provide an overall opinion on the adequacy and effectiveness of the ESPO's "internal control environment". Based on the evidence from internal audits conducted during 2011-12 of ESPO, the following conclusions have been drawn:-

A general assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

There has been substantial improvement in governance arrangements especially around risk management, the creation of a new Finance (and audit) Subcommittee and the Management Team and Servicing Authority Officers have encouraged audits to promote challenge. The general direction of travel for ESPO's future governance arrangements is positive. However, whilst it is acknowledged that significant investment continues, until the transformation is complete and audits have been undertaken, overall assurance on the wider internal control environment can not yet be assessed.

A summary of the work undertaken by Leicestershire County Council Internal Audit Service during 2011-12 is detailed below.

Consortium Treasurer responsible for arranging continuous audit

Audit Requirement

Under ESPO's Constitution Agreement (Agreement between Member Authorities dated 21st April 1999) the role of the Servicing Authority (Leicestershire County Council) and that of the S151 Officer is outlined. This states that Leicestershire County Council (the County Council) as the servicing authority, continue to provide financial support services, mainly for payroll and internal audit and financial advice to ESPO. The Consortium Agreement and Constitution are currently under review and progress will be reported to Management Committee in autumn.

Background

Leicestershire County Council Internal Audit Service carry out the work

The internal audit of the EPSO is carried out by Leicestershire County Council's Internal Audit Service (LCCIAS). Auditors work closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

Giving assurance about internal controls

The primary objective of the internal audit is to provide members and management, including the Consortium Treasurer, with assurance that the internal control systems of ESPO are operating properly. Effective controls should ensure that:-

What effective controls should be doing

1. The assets of ESPO are safeguarded against loss, claim or fraud.
2. Decisions are recommended and authorised according to the requirements of the ESPO's Constitution. Both accurate and relevant management and financial information is produced to assist in this.
3. Resources are used in furtherance of agreed plans in an effective manner which is also efficient and economical taking into account any community or environmental requirements of the ESPO
4. Agreed ESPO policies and legal requirements are being correctly observed.

Responsibility of managers and auditors in respect of controls

It is the responsibility of ESPO management to install and operate adequate arrangements for risk management, internal control and governance; and to seek value for money in order to carry on the operations of ESPO in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure, as far as possible, the completeness and accuracy of its records. It is for ESPO management to identify, assess and manage the risks that are significant to the achievement of its objectives. The role of Leicestershire Internal Audit Service as internal auditors is to provide independent

assurance to the Finance and Audit Subcommittee, Consortium Treasurer and management, that it is doing so successfully for each of the areas audited. This includes responsibility for evaluating the system of internal control over the duration of the four-year strategic audit plan and reporting to ESPO, thereby providing them with assurance on the audit areas.

Wider scope of audit coverage

The methodology used to assess the need for internal audit coverage reflects the increasing emphasis being placed on wider governance and risk management issues.

Relative need for audit coverage assessed using risk based methodology

The audit planning methodology comprises of the audit universe and MILE. Emphasis is placed on risk factors, namely materiality; risk likelihood; its impact and known reductions in risk exposure. Scores derived from this analysis are then used to rate the relative importance of a number of different headings such as governance arrangements, income, procurement etc.

“Joint audit” work with PwC Internal Audit liaises with the ESPO's External Auditor, PricewaterhouseCoopers (PwC). This avoids unnecessary duplication on areas where both parties consider coverage is essential. It includes undertaking 'joint' audit work where it is to each party's benefit and produces better value for money. This means that Internal Audit Service undertake work (primarily on the key financial systems) which External Audit can vet and then formally rely on when reaching its conclusions for the final accounts. Audits on Trading, General Ledger and ICT controls are undertaken under the 'joint' audit arrangements.

Risk based auditing LCCIAS uses a number of techniques to provide a statement of assurance. In the case of the ESPO much work will be based around a “risk based” audit. With this technique key risks (based on likelihood and impact) are identified and agreed at the start of the audit. The quality of controls to mitigate these risks is then tested

High importance recommendations Where residual risk levels are considered still to be significant, recommendations are designated as High Importance. If agreement cannot be reached between the line managers and the auditor on ways to reduce these risks, the Director and the Consortium Treasurer will be asked to consider the risk implications and the recommendation made. They would then need to agree upon what changes should be made and what level of (residual) risk is acceptable.

ESPO member involvement The ESPO Interim Director reports on internal audit work and proposed actions to the Management Committee.

Summary of Work

Audits undertaken in 2011-12 Work undertaken during the year is listed below.

Joint audit work:

General Ledger The objective for this audit was to provide assurance on the completeness and accuracy of the 2011/12 ESPO General Ledger covering areas such as cash, treasury management, income and debtors, purchasing and creditors, payroll, stock and access rights. Minor recommendations were accepted.

Trading The objective for this audit was to ensure that the trading results provided by ESPO, both for internal use and reported to the Management Committee, are

well founded in its General Ledger. Substantial assurance was provided.

ICT

Key ICT controls were examined as part of this review covering policies, user administration, network security, business continuity etc. Recommendations were accepted by management.

Stock

The audit scope was twofold:

- Review of the year end summary reconciliation between Warehouse and General Ledger with regard to stock
- Understand the impact of Returns and Free of Charges (FOC) in terms of how they are dealt with within the Warehouse system and Trading Results and /or General Ledger

Overall assurance was substantial but a number of recommendations were accepted by management.

Supplier Account Management

The objective was to ensure that standing supplier data is accurate and up to date and processes were in place to verify any changes to supplier information to ensure only valid suppliers are paid. A number of recommendations were made including one High Importance recommendation around poor segregation of duties. By the close of the audit the recommendation had been actioned

Directs- Customer Orders

The objective was to provide assurances that customers are invoiced accurately in line with the order and ESPO pay the supplier the correct amount. Minor recommendations were made and accepted by management.

Warehouse Order Picking System

A position statement has been issued regarding the current performance of the warehouse order picking system using information available via the existing software (System 21 Aurora). The area will be followed up later in the year.

Rebates

The objective was to perform a high level overview of the adequacy of the rebates system. This included meeting and discussing the roles of staff within the ESPO Finance section and sample buying groups comprising energy, food and provisions, furniture, hardware and ICT. The report contained four high importance (HI) recommendations, relating to business processes in operation, amounts due, Pro5 contracts and management information. An audit is planned in December 2012 to follow up the HI

recommendations to ensure implementation has taken place as agreed

Collaborative Procurement (Pro 5)

The objective was to ensure that the risks in relation to contracting are being managed as part of the Collaborative Procurement Consortium (Pro5). This audit resulted in two high importance recommendations. The draft report currently provides a partial assurance opinion, although management has accepted this and work is underway to reach a final position and conclude the report. . Whilst additional work undertaken on the operational processes proved satisfactory control, it is important that management promptly and fully address the actions still required with regard to Pro5.

Change Programme

Throughout the transition to implementation, Internal Audit Service has (on a priority risk basis) provided 'critical friend' assurance on the design and implementation of internal controls or absence thereof and any associated residual risk in relation to key product streams as advised by the Change Programme Manager. Advice provided during the year covered the Risk Management Policy Guidance, and Procurement Business Case documentation.

Persons to Contact about this Report

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