

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 18 FEBRUARY 2013

AGENDA ITEM NO 5

**ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF
INTERNAL AUDIT**

REPORT OF THE CONSORNIUM TREASURER

Purpose of the Report

1. To provide Members with information on why an assessment of the effectiveness of the system of internal audit at ESPO is required and how the assessment was conducted in November 2012.
2. To briefly explain progress against the nationwide implementation of new Public Sector Internal Audit Standards from 1 April 2013 and how the Standards might affect the role of the Subcommittee.

Background

3. The Consortium Treasurer has a responsibility to ensure that decisions relating to the financial management of ESPO are based upon sound financial advice. To gain assurance that there are effective risk management, governance and internal control arrangements, he commissions Leicestershire County Council Internal Audit Service (LCCIAS), to plan and undertake internal audits at ESPO and report findings and make recommendations accordingly.
4. Under its terms of reference the Finance and Audit Subcommittee should receive and review audit and governance reports. It is intended for the Subcommittee to also monitor the adequacy and effectiveness of the system of internal audit.
5. At the Subcommittee on 20 November 2012, in paragraph 8 of his quarterly report on progress against the 2012-13 Internal Audit Plan, Leicestershire County Council's Head of Internal Audit Service (HoIAS) informed Members that he was required to report on the effectiveness of the system of internal audit to the Council's Corporate Governance Committee (CGC) on 26 November and would share his report with this Subcommittee's Members immediately thereafter, which he duly did.

Assessment of the effectiveness of the system of internal audit

6. The HoIAS report to the County Council's CGC and the accompanying self-assessment of the effectiveness of the system of internal audit are attached as appendices 1 and 2 respectively.
7. The report explained that the HoIAS had self-assessed compliance against the 'Code of Practice for Internal Audit in Local Government in the United Kingdom' (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The self-assessment had confirmed that overall, Leicestershire County Council continues to undertake an effective internal audit function and internal audit continues to be an effective part of the internal control process.
8. The HoIAS reported that at the time of his self-assessment, there were a small number of areas where the internal audit function was (at times or to varying degrees) either not fully or substantially complying with the Code. He reported that any areas where there was only 'partial' compliance would be improved, both through the implementation of process and structure changes following an organisational change review of LCCIAS, and the adoption of, and conformance to, the soon to be introduced mandatory Public Sector Internal Audit Standards being introduced from April 2013 (see below).
9. Given that LCCIAS applies the same staff, methodology and processes for planning, conducting and reporting audits, for ESPO as it does for the County Council, it is reasonable to conclude that the system of internal audit for ESPO is effective. This opinion is substantiated by ESPO's External Auditor placing reliance on the work of LCCIAS each year, subject to compliance against their particular standards.
10. It is considered that the self-assessment sheet (Appendix 2) provides Members with a useful means of supplementing their knowledge of the system of internal audit and will assist them in taking a view on its effectiveness. However, should Members wish to discuss the self-assessment further the HoIAS would be willing to give further explanation.

Public Sector Internal Audit Standards

11. The HoIAS report (Appendix 1) also introduced the development of Public Sector Internal Audit Standards (PSIAS) which are to be introduced from 1 April 2013.
12. It remains the HoIAS opinion (and that of his peers across the Country) that the PSIAS will further strengthen the roles and responsibilities of internal audit within governance forums. Adoption of, and compliance with the PSIAS will affect not only how the HoIAS reports to the ESPO Finance and Audit Subcommittee but also how the effectiveness of ESPO's internal audit service is proved. For example, the HoIAS will have to develop and maintain a quality assurance and improvement programme to enable the service to be

measured against the PSIAS, arrange for external assessments to be undertaken at least once every five years and report compliance against the programme in an annual report.

13. It had been intended that specific details on the PSIAS, their effect on the system of internal audit and the role and responsibilities of this Subcommittee would be provided at this meeting. However, whilst the PSIAS will be implemented from 1 April, because of their complexity and scope CIPFA is producing specific guidance in a 'Local Government Application Note' and this will not be available until March 2013. Once this guidance has been produced a further report will be brought to the Subcommittee.

Recommendation

14. That the contents of the report be noted.

Equal Opportunities Implications

15. There are no discernible equal opportunities implications resulting from the audits listed.

Background Papers

Report to ESPO Management Committee on 27 September 2012 – Finance and Audit Subcommittee – Proposed terms of reference and indicative work plan

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Appendices

Appendix 1 - Report to Leicestershire County Council's Corporate Governance Committee – 16 November 2012

Appendix 2 - HoIAS self-assessment of compliance with CIPFA code: November 2012