

# ESPO

## Leicestershire County Council Internal Audit Service Annual Report 2012-13



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**May 2013**

**LEICESTERSHIRE COUNTY COUNCIL**  
**INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2012-13**

**Overall Opinion**

The CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006) requires the Head of Internal Audit Service (HoIAS) to provide an opinion on the overall adequacy and effectiveness of ESPO's internal control environment i.e. its framework of governance, risk management and control. Based on an objective assessment of the results of individual audits undertaken and actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following opinions have been drawn:-

**Governance: -**

**There has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.**

**Risk management: -**

**ESPO has a robust risk management framework and plans to improve awareness of risk management beyond strategic management level.**

**Internal financial and ICT controls: -**

**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.**

**A summary of the work undertaken by Leicestershire County Council Internal Audit Service (LCCIAS) during 2012-13 is detailed below.**

### **Audit Requirement**

**Consortium Treasurer responsible for arranging continuous audit** Under ESPO's constitutional arrangements (recently reviewed as part of a fundamental change programme) the role of the Servicing Authority (Leicestershire County Council) and that of the Consortium Treasurer is defined. This states that Leicestershire County Council (the County Council) as the servicing authority, continue to provide financial support services (including internal audit) to ESPO.

### **Background**

**Leicestershire CC internal auditors carry out the work** The internal audit of 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 on ESPO's internal control environment** The primary objective of internal audit is to provide Members, the Consortium Treasurer (the Treasurer) and Consortium Secretary and the Director of ESPO (the Director) with independent and objective assurance on the overall adequacy and effectiveness of ESPO's internal control environment i.e. the framework of governance, risk management and internal control

**Responsibility in respect of the control environment** It is the Director's responsibility to design, install and operate adequate arrangements for governance, risk management and internal control within appropriate constitutional frameworks; and to identify, assess and manage risks that are significant to the achievement of ESPO's objectives.

As internal auditors, LCCIAS provides independent and objective assurance to the Finance and Audit Subcommittee, the Treasurer and the Director that ESPO is doing so successfully for each of the areas audited, and reports its findings, conclusions and recommendations accordingly.

**Wide scope of audit coverage** The methodology used to assess the need for internal audit coverage reflects the increasing emphasis being placed on governance and risk management.

**Plan for audit coverage assessed using risk based methodology**

For 2012-13 LCCIAS audit planning methodology comprised reviewing and updating the 'audit universe' (a list of auditable entities) and applying the internally designed risk scoring/ranking system 'MILE'. Emphasis was placed on risk factors, namely materiality; risk likelihood; its impact and known reductions in risk exposure. Scores derived from the analysis were used to rate the relative importance of a number of different headings such as governance arrangements, income, procurement etc

**"Joint audit" work with PwC**

Part of the annual internal audit plan for ESPO requires that LCCIAS conducts annual audits on key elements of the general ledger and IT systems. These audits are undertaken in consultation with ESPO's External Auditors (PWC) to assist in their responsibility to form an opinion that ESPO's financial accounts are not materially misstated. PWC determines that the quality and scope of LCCIAS work is sufficient to contribute positively to ESPO's overall control environment and to allow them to place reliance on LCCIAS work.

**Risk based auditing**

LCCIAS uses a number of techniques to reach its opinions on what level of assurance can be provided that risks are being identified, evaluated and managed. 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**

Following testing, where risk levels are considered still to be significant, (in line with ESPO's own risk scoring methodology), then recommendations are designated as High Importance (HI). Action taken to implement the recommendation is always re-tested by LCCIAS.

**ESPO member involvement**

The Finance & Audit Subcommittee receives audit reports i.e. annual plan, quarterly progress against the plan (including progress against implementing HI recommendations), annual report (including the HoIAS opinion) and the review of effectiveness of the system of internal audit.

### Summary of Work

<b>Audits undertaken in 2012-13</b>	Work undertaken during the year is listed below.
<b>Stock (complete 12-13)</b>	Objective was to provide assurance that the financial information held on the warehouse system and the general ledger with regard to stock were aligned. Recommendations around surplus/deficit thresholds; management information; operational processes and monitoring and performance information were agreed.
<b>Rebates Phase 2</b>	Objective was to ensure that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate. One recommendation around following up any discrepancies was agreed to be implemented.
<b>Warehouse Picking System</b>	Objective was to obtain and evaluate key performance indicators currently in operation/available and to subsequently measure these against the new Indigo system (Stage Two 12/13 audit) in order to ascertain if the key deliverables of the project have been achieved. One recommendation around developing key performance indicators was agreed to be implemented.
<b>Annual Governance Statement</b>	Objective was to ensure that there were adequate arrangements in place to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework. The one HI recommendation (to improve the process for the 2012-13 compilation) was accepted and progress has been made.
<b>Supplier Performance</b>	Objective was to provide assurance that arrangements were in place to ensure poor supplier performance was identified, monitored and managed effectively. A number of recommendations around improving complaints procedures and customer relationship records; introducing satisfaction questionnaires; management information and key performance indicators and targets and escalation procedures were all agreed to be implemented

<b>Health &amp; Safety</b>	Objective was to ensure that ESPO assesses and monitors that it is compliant with Health & Safety requirements & legislation and, in particular, that the recommendations coming from the LCC review of Health & Safety (March 2012) had been fully considered and, where appropriate, implemented. Recommendations relating to regular reviews of policies; records of checks; proactive risk management and reviewing first aid cover were all agreed to be implemented.
<b>Risk Management</b>	Objective was to confirm that there is an effective risk management framework in place within the organisation. Recommendations relating to reviewing policy; reporting arrangements; alignment to business priorities; quarterly reporting training and guidance and publicity were all agreed to be implemented.
<b>E-tendering</b>	Provided advice on audit trail requirements in tender documents and reviewed and commented on applicants' submissions
<b>Financial Vetting</b>	Objective was to ensure that procedures for the financial vetting of suppliers were being followed in line with guidance provided. Recommendations included establishing a process to determine for which contracts it is necessary to continue to review financial stability on a regular basis; changes to wording within tender documentation to assist understanding; reporting results and monitoring consistent compliance.
<b>Legislation Compliance</b>	Reviewed a sample of contracts and projects to show that external legislation and ESPO directives had been correctly applied in relation to the tendering process e.g. advertisement, tender receipt & opening, tender award. Recommended improved records and document retention.
<b>Rebates (processes)</b>	Evaluated progress against implementing the previous year's audit HI recommendations.
<b>General Ledger</b>	A programme of work on the key financial systems; to give assurance on the completeness and accuracy of the 2012/13 General Ledger. The programme has to be agreed with the External Auditor since the outcomes assist their annual assessment of the likelihood of material misstatement in ESPO's financial accounts. Found that accounting procedures were being applied to ensure the completeness and accuracy of the General Ledger.

<b>Business continuity arrangements</b>	The objective was to provide assurance that arrangements were in place to ensure acceptable continuation of core activities in the event of system failures or emergencies. One HI recommendation to define business critical services was agreed
<b>Debtors</b>	Objective was to provide assurance that debt recovery processes were robust and write-offs are valid and appropriately authorised. Recommendations were made to improve controls but none were deemed high importance.
<b>Rebates (supplier verification)</b>	Objective was to give assurance that for a sample of suppliers, the levels of turnover indicated by the suppliers and consequently the level of rebate paid to ESPO by the supplier were accurate.
<b>Stock</b>	Objective was to provide assurance that there were robust systems for receipts into, movements within and issues from stores and, that issues were supported by sales ledger invoices. Deferred pending further development of the Indigo stock management processes and will be picked up in the 2013-14 audit plan.
<b>Pre-employment checks</b>	Objective was to give assurance that pre-employment procedures in relation to Agency staff were robust in relation to the confirmation of: relevant qualifications, driving licenses and right to work. Found that processes were robust
<b>Trading information</b>	The objective was to ensure that the trading results provided by ESPO, both for internal use and reported to the Management Committee, were well founded in its General Ledger. Found that there was an adequate trail to the General Ledger.

### **Person to Contact about this Report**

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