



**ESPO FINANCE AND AUDIT SUBCOMMITTEE – 3 JUNE 2013**

**ANNUAL INTERNAL AUDIT PLAN 2013-14**

**REPORT OF THE CONSORTIUM TREASURER**

**Purpose of Report**

1. The purpose of this report is to provide information on the work undertaken to create the annual internal audit plan 2013-14.

**Background**

2. 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 these affairs.
3. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) to provide internal audit for ESPO. LCCIAS must conform to internal audit professional standards. On 1<sup>st</sup> April 2013, new Public Sector Internal Audit Standards (PSIAS) replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code).
4. Both the former Code and recently introduced PSIAS require the Head of Internal Audit (at LCCIAS this is the Head of Internal Audit Service – HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the organisation's internal control environment, which the PSIAS further explains is the organisation's framework of governance, risk management and control. In order to do this, the scope of internal audit work needs to be wider than the 'traditional audit' of the financial systems. Both standards require the HoIAS to prepare a risk based internal audit plan which takes account of the organisation's risk management process.

**Terms of Reference**

5. Part of the role of the Finance & Audit Subcommittee (the Subcommittee) is to review audit reports. The Subcommittee should receive and note the annual internal audit plan; regular progress reports against the plan; an annual report on work undertaken and an assessment of the internal audit service effectiveness.

### **Planning Methodology**

6. The methodology underpinning the internal audit planning strategy incorporates two main components. These are the development and maintenance of the 'audit universe' (a list of entities to audit) and the application of a scoring/ranking system against those entities.
7. Given the continuing pace across society of transformational change, new and emerging risk, organisational instability, austerity and the need to make savings, new entities are added to the audit universe each year whilst traditional entities remain on the list but their risk might reduce. To develop the universe the HoIAS researches and evaluates where risk might occur to ESPO using methods including: -
  - a. Consultation about emerging risks, planned changes and potential problems with the Consortium Treasurer and Secretary, Senior Management at ESPO and the External Auditor
  - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
  - c. Comparisons against similar purchasing consortia
  - d. 'Horizon scanning' new and emerging risks from professional and industry sources.
8. Historically, a four year 'strategic plan' would be maintained and (based on frequency) certain audit entities would 'roll into' the annual audit plan. However, other than the necessity to rotate some work on the key financial systems which require cyclical auditing, modern audit planning requires flexibility to ensure that key and emerging risks take precedence when balanced against available internal audit resource and budgets. An improvement in ESPO risk management and governance arrangements and the Director of ESPO's recognition of responsibilities for internal control systems, has allowed the HoIAS to utilise the information in 7 a-d above, to devise the plan.
9. The attached plan for 2013-14 (Appendix 1) contains audits that will allow the HoIAS to form an opinion on the overall adequacy and effectiveness of ESPO's framework of governance, risk management and control. The plan shows a wide spectrum of audits covering risks around: -
  - a. Governance – including an audit of the role of LCC as servicing authority
  - b. Operational/business
  - c. Human resources
  - d. ICT
  - e. Financial/trading
10. Part of the plan 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 mis-stated. 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.

The indicative objective for each audit is included in the attached plan but the scope is further discussed and agreed in detail at the engagement stage.

### **Progressing the Audit Plan**

11. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. The Internal Auditor's task is to carry out independent and objective reviews and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
12. On completion of each audit a report is issued to the Director of ESPO and the Consortium Treasurer. The opinions reached along with summary findings are reported each quarter to the Subcommittee. If any audit produces a 'high importance' recommendation, then the full report is shared with the Subcommittee, and specific re-testing is undertaken later in the year to prove that control has actually improved and is embedded.

### **Resources Implications**

13. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority. Plan days have been retained at 200 for 2013-14 (£56,000) reflecting that whilst there have been significant improvements in the overriding governance frameworks and internal management changes; these have not yet been independently and objectively tested to conclude they are embedded. In addition, transformational change continues apace. The 200 days should enable the HoIAS to provide a sound assurance to the Consortium Treasurer that risks are being managed.

### **Conclusion**

14. The details of the 2013-14 internal audit plan, including a summary of the days allocated, is attached in Appendix 1 to this report. The plan has been presented to the Consortium Treasurer and Secretary and the Director of ESPO for comments and approval.

### **Recommendation**

15. Members are requested to:
  - a) Support the methodology used as a basis for developing the internal audit plan;
  - b) Note the ESPO Internal Audit Plan for 2013-14.

### **Equal Opportunities Implications**

16. At this stage there are no known direct implications resulting from the internal audit plan strategy, although 'human resource' elements will be audited.

**Background Papers**

None.

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**Appendices**

Appendix 1 - Internal Audit Plan 2013-14