Agenda Item 5

ESPO FINANCE AND AUDIT SUBCOMMITTEE – 17 FEBRUARY 2014

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2013-14 INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

1. To give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work to the Subcommittee and highlight any audits where high importance (HI) recommendations have been made and the position against implementing action.

2. To provide an update on the adoption of the Public Service Internal Audit Standards (2013) and how these affect the Finance and Audit Subcommittee's annual work programme.

Background

3. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. Rule 15 imposes a specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference the Finance and Audit Subcommittee (the Subcommittee) should receive and review audit and governance reports. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.

4. The audits undertaken are based on the annual internal audit plan. Variations to the plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.

Summary of Progress

5. Progress against the plan up to the end of January 2014, is shown in **Appendix 1.** The 'opinion' is what level of assurance can be given that material risks are being managed.

6. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get a classification above partial. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.

7.   **Appendix 2** summarises for completed audits the objectives, findings and conclusion/opinion and for audits in progress gives the objective and current position. There are a considerable number of audits in train at different stages of workflow. Discussions are due to be held with the Director of ESPO to manage the impact on operations in the last quarter, whilst balancing the need to provide assurance.

8.   **Appendix 3** details HI recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Subcommittee before or where LCCIAS has identified that some movement has occurred in a previously reported recommendation are shown in **bold font.** Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.

9.   There are not any new HI recommendations to report this quarter. The specific retesting of the implementation of the rebates HI recommendations is imminent.

Update on the adoption of the Public Service Internal Audit Standards (2013) and how these affect the Finance and Audit Subcommittee's annual work programme

10.   The Subcommittee was informed at its meeting on 3 June 2013 about the proposed implementation of the Public Service Internal Audit Standards (PSIAS) from April 2013. Whilst these new standards applied from 1st April 2013, advice on how they specifically applied to Local Government was not available until mid-April. The application of the PSIAS and, in particular, proving conformance to them, led to some concerns being raised nationally by Heads of Internal Audit. This resulted in further clarifications being sought and training events being provided.

11.   The Head of Internal Audit Service (HoIAS) took the view that it would be prudent to await full advice and to reflect on others' experiences before designing and implementing the PSIAS. Consideration will shortly be given to the terms of an internal audit 'charter' (formally Terms and Objectives) that will define LCCIAS purpose, authority, responsibilities and activity consistent with the requirements of the new standards. The 'charter' will primarily be designed for LCCIAS relationship with Leicestershire County Council but then will adapted as necessary for its relationship with ESPO and will be presented to the Finance and Audit Subcommittee for approval at a future meeting.

12.   The HoIAS has, on an annual basis, presented a report to the Subcommittee on the 'Effectiveness of the System of Internal Audit'. However, the new standards require a Quality Assurance and Improvement Programme to be developed that should facilitate an assessment of the efficiency and effectiveness of all internal audit activity and identify opportunities for improvement.

13.   This should enable conformance (or any specific non-conformance) with all aspects of the PSIAS to be evaluated. Should there be any significant deviations (as yet to be defined) from the standards, consideration will be given to the need to disclose them within the ESPO Annual Governance Statement.

14.   PSIAS requires that the results and progress against any improvement plans should be reported in the Internal Audit Annual Members' Report, which will be presented to the Subcommittee on Tuesday 10 **June** 2014.

Recommendation

15.   That the contents of the report be noted.

Equal Opportunities Implications

16.   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 -   Summary of final internal audit reports issued 1.11.2013 - 31.01.2014
Appendix 2 -   Summary audit objectives, findings and conclusions
Appendix 3 -   Summary of Internal Audit High Importance Recommendations

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