



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 10 JUNE 2014

ANNUAL INTERNAL AUDIT PLAN 2014-15

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 2014-15.

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 the Public Sector Internal Audit Standards 2013 (the PSIAS).
4. The 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 control environment, which the PSIAS further explain 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 wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.

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 HoIAS takes into account ESPO's risk management framework, including using risk appetite levels set by management. The annual plan reflects changes in ESPO's business, risks, operations, programs, systems, and controls including other forms of assurance gained. An 'audit universe' (a list of entities to audit) exists along with a scoring/ranking system against those entities.
7. Given the pace across society of transformational change, new and emerging risk, organisational instability, continuing austerity and the need to make savings, new entities are added to the audit universe each year (and indeed throughout the 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 issues with the Director of ESPO (the Director) and his Senior Management Team, the Consortium Treasurer and Secretary and the External Auditor
 - b. Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
 - c. Identification and evaluation of the robustness of other forms of assurance received
 - d. Where possible comparisons against similar purchasing consortia audit plans
 - e. 'Horizon scanning' new and emerging risks from professional and industry sources.
7. Modern internal audit planning requires flexibility to ensure that key and emerging risks take precedence when balanced against available internal audit resource and budgets. A continuing improvement in ESPO risk management and governance arrangements and the Director of ESPO's recognition of his Senior Management Team's responsibilities for internal control systems, has allowed the HoIAS to utilise the methods in 7 (a-e) above, to devise the plan.
8. Of particular importance to internal audit planning is the detailed content of the Four Year Business Strategy that was reported by the Director to Management Committee on 6 March 2014. It is readily acknowledged there will be risks to the achievement of the Strategy's objectives that will need to be identified and evaluated by ESPO management and mitigated where required.

9. Throughout the four year lifecycle of the Strategy, as well as evaluating that progress and attainment of objectives is adequately governed, as new programmes and projects are planned to come on stream, LCCIAS has a role to: -
 - a. Review and advise on ESPO management's control/mitigation design, and strategies for testing robustness before systems/processes 'go live' (consulting type audit)
 - b. Once systems/processes are embedded, that the approved controls and mitigations are being applied as originally required (assurance type audit)
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 internal audit plan 2014-15

11. The attached plan for 2014-15 (Appendix 1) contains a wide scope of 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 wide scope of LCCIAS' planned audits of ESPO is similar to that of another large scale purchasing consortium. Even though that organisation has not indicated the total days provided, its scope covers: -
 - a. Main Financial Systems – annual review and testing
 - b. New systems/initiatives being developed
 - c. Strategic risks & other risk based audits
 - d. Annual Governance Statement and Code of Corporate Governance
 - e. Anti-fraud and bribery arrangements/testing
 - f. Follow up on work undertaken and reported previously
 - g. Input to Committee function
 - h. Liaison, consultancy and advice
12. A small amount of resource has been planned to finalise 2013-14 audits. A number of audits not started in 2013-14 are deemed to be of sufficient importance to be included in 2014-15.
13. The first column indicates which part of the control environment the audit primarily matches (there is often overlap) and the third column is an attempt to match to ESPO's current Key Risk Register (again there is some overlap)
14. The indicative objective for each audit is included in the attached plan but the scope is discussed and agreed in detail at the

engagement stage. Indicative days have been assigned but these are subject to variation and change. The HoIAS would notify the Director and Consortium Treasurer where this is material.

Progressing the Audit Plan

15. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with ESPO management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
16. On completion of each audit a report, findings will be discussed with the appropriate risk owner before issuing a report 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

17. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority. Plan days for 2013-14 have been reduced by 15 to 185 to reflect that constitutional change and governance arrangements are more embedded, there is a stable and complete Senior Management Team and risk management continues to improve. However, there is still significant change planned within the organisation not least with the need for new operational systems and the risks that apply to implementing the four year business strategy.
18. The 185 days (indicative cost £52,000) should enable the HoIAS to provide reasonable assurance to the Consortium Treasurer that risks are being managed.

Conclusion

19. The details of the 2014-15 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, Consortium Secretary and the Director of ESPO for comments and approval.

Recommendation

20. The Subcommittee is requested to:
- a) Support the methodology used as a basis for developing the internal audit plan;
 - b) Note the ESPO Internal Audit Plan for 2014-15.

Equal Opportunities Implications

21. 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 2014-15

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