

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of ESPO's control environment  
2013-14**



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**27<sup>th</sup> May 2014**

To the Consortium Treasurer

### **Background**

During the financial year 2013-14, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document.

The HoIAS annual opinion is for a specific time interval i.e. 2013-14 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed, are formed by applying systematic grading to remove any elements of subjectivity.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the ESPO control environment. No system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on controls on the basis of the work undertaken.

### **Governance related internal audit work**

An opinion on whether good governance principles have been applied is based on the results of audits of AGS; elements of key ICT controls; fraud management; budget management; MTFS; attendance management; risk management and the role of the servicing authority. Recommendations were relatively minor and where they related to governance, it was to strengthen it, i.e. not to have to establish it.

The HoIAS attends Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. The HoIAS has regular discussions with the ESPO Director and Assistant Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits.

**HolIAS opinion: - Nothing of such significance, adverse nature or character has come to the HolIAS attention, and as such reasonable assurance is given that ESPO's governance arrangements are robust.**

### **Risk management related internal audit work**

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. A specific audit of the ESPO risk management framework (corporate risk register) proved there were further improvements and good elements of risk management, although further embedding at operational level would strengthen arrangements. Recommendations have been implemented and a further follow up audit will take place before the end of the 2014-15 financial year to evaluate progress.

The HoIAS provides the External Auditor with an opinion on ESPO management of fraud risk. This was followed up with the specific audit of counter fraud arrangements with some minor recommendations.

A previous year's High Importance recommendation relating to business continuity was tested and confirmed as implemented.

**HoIAS opinion: ESPO has acknowledged there is scope to continue improving its risk management framework. Additionally, management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.**

### **Financial (and ICT) Controls related internal audit work**

A number of financial system audits were undertaken on ESPO's general ledger activities and other operational financial systems including payroll and stock management.

No findings were of such seriousness as to suggest a fundamental weakness in a main financial system.

Previous year's High Importance recommendations relating to rebates income processes were tested and confirmed as implemented.

**HoIAS opinion: Reasonable 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.**

Dated 27<sup>th</sup> May 2014

Signed Neil Jones CPFA  
Head of Internal Audit Service  
Leicestershire County Council

## **The control environment**

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

### **Control**

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management, regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: -

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.