



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 10 JUNE 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 a brief summary of LCCIAS' performance against the ESPO Internal Audit Plan 2013-14
3. To provide a brief update on LCCIAS' implementation of the Public Sector Internal Audit Standards 2013 (the PSIAS)

Background

4. 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.
5. 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

6. Progress against the 2013-14 plan up to the 27 May 2014, is shown in **Appendix 1**. The 'opinion' is what level of assurance can be given that material risks are being managed. Five jobs are shown as not finalised by 27 May, but there is confidence they will be by the date of this Subcommittee meeting.

7. 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.
8. **Appendix 2** summarises for completed audits the objectives, findings and conclusion/opinion and for audits in progress gives the objective and current position. At the Subcommittee meeting held on 17 February 2014, the HoIAS reported there were a considerable number of audits in train at different stages of workflow. In order to better track progress and aid their understanding, Members suggested that Appendix 2 to the report would benefit from additional information to show: -
- completed audits (now included on pages 21 to 23)
 - status of 'incomplete' audits with projected completion dates (page 24)
 - planned audits 'not started' & reasons (pages 25 and 26)
9. **Appendix 3 is not included but** would normally detail HI recommendations and provide a short summary of the issues surrounding these. However, there are not any new HI recommendations to report this quarter and in April LCCIAS received sufficient evidence to prove ESPO had taken appropriate action on the longstanding rebates HI recommendations. Nevertheless, Annual audit of rebates income should prove whether controls/improvements are fully embedded.

A brief summary of LCCIAS' performance against the ESPO Internal Audit Plan 2013-14

10. At the Subcommittee on 17 February, Members also requested information on performance against the plan. This can be easiest shown in the table below: -

Table 1 : Overall performance against 2013-14 internal audit plan

	<u>Due</u>	<u>Complete @ 27/5</u>	<u>Incomplete</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 12-13	5	5	0	0	15	+15
Follow up HI recs	2	2	0	0	2	+2
Planned 13-14	25	16	9	185	130	-55
Unplanned 13-14	0	2	1	0	7	+7
Client mgt.	1	1	0	15	21	+6
Total	33	26	10	200	175	-25

11. Because of the difficulty in closing down audits precisely at the end of the year, some resource has already been utilised in 2014-15 completing 2013-14 audits.
12. Reasons for the planned but incomplete work at 27 May are given in Appendix 2 pages 5 and 6. Explanations are a mix of untimely scheduling and having to balance against priorities for ESPO operations, key staff unavailability (especially in ICT audit at the start of the year) and 'overspends' closing off work. A number of unplanned jobs compensated for the postponements and a wide spectrum of ESPO's risks have still been covered.

A brief update on LCCIAS' adoption of the Public Service Internal Audit Standards (2013)

13. Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1st April 2013, provide a consolidated approach across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass not only the mandatory elements of the Global Institute of Internal Auditors (IIA), including a standard definition of internal auditing, a Code of Ethics and International Standards for the Professional Practice of Internal Auditing, but also further UK public sector requirements and interpretations.
14. The PSIAS mandate that the purpose, authority and responsibility of an organisation's internal audit activity must be formally defined in an internal audit charter (the Charter). The Head of Internal Audit Service (HoIAS) has provided a draft Internal Audit Charter for Leicestershire County Council which is currently being reviewed by the County Council's Chief Financial Officer and the Monitoring Officer. The draft Charter: -
 - a. recognises the mandatory nature of the PSIAS and relevant legislation;
 - b. defines the scope of internal audit activities;
 - c. establishes responsibilities, objectives & organisational independence;
 - d. establishes accountability, reporting lines and relationships;
 - e. sets out the arrangements for anti-fraud and anti-corruption policies;
 - f. establishes rights of access to all records, assets, people & premises;
 - g. define the terms 'board' & 'senior management';
 - h. covers the arrangements for appropriate resourcing;
 - i. defines the role of internal audit in any fraud-related work;
 - j. includes arrangements for avoiding conflicts of interest.
15. Once the Charter has been reviewed for the County Council, it would seem prudent for an adapted version for ESPO to be reviewed by the Consortium's Treasurer and Secretary and the Director of ESPO. Final approval of the Charter rests with 'the Board'. The PSIAS allows for a number of groups to satisfy the role of the Board but the standards define the Board as 'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation'. and as such it is proposed that following consideration by the Finance and Audit

Subcommittee, the Management Committee should have responsibility to formally approve the ESPO Internal Audit Charter.

Recommendation

16. That the contents of the report be noted.

Equal Opportunities Implications

17. 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 01.02.2014 – 27.05.2014
- Appendix 2 - Summary audit objectives, findings and conclusions