

ESPO

Leicestershire County Council Internal Audit Service Annual Report 2013-14



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LEICESTERSHIRE COUNTY COUNCIL**INTERNAL AUDIT SERVICE****ANNUAL REPORT 2013-14****Overall Opinion**

The Public Sector Internal Audit Standards 2013 (the PSIAS) require 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. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Leicestershire County Council Internal Audit Service (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.

Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following opinions have been drawn:-

Governance: -

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

Risk management: -

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.

Internal financial and ICT controls: -

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.

Full details of the HoIAS opinion for 2013-14 are found in Appendix 2

A summary of the work undertaken by Leicestershire County Council Internal Audit Service (LCCIAS) during 2013-14 is detailed below.

Audit Requirement

Consortium Treasurer responsible for arranging continuous audit

ESPO's Consortium Agreement schedule 3 'Functions of the Servicing Authority', directs that the Servicing Authority (Leicestershire County Council) shall be responsible for arranging the provision of support services (including internal audit).

ESPO's Financial Regulations (including the Standard Financial Instructions) further provide that 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.

Background

Leicestershire CC internal auditors carry out the work

The Consortium Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS), to provide internal audit for ESPO. LCCIAS has adopted the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS). LCCIAS works closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

Giving assurance on ESPO's control environment

The PSIAS mandate that the HoIAS must provide an annual report to 'the Board' (Management Committee) timed to support the annual governance statement. The report must include an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies). The PSIAS definitions of control and the control environment are found in Appendix 2.

Responsibility in respect of the control environment

It is the Director of ESPO's (the Director) responsibility to design, install and operate adequate arrangements for governance, risk management and control within appropriate constitutional frameworks; and to identify, assess and manage risks that are significant to the achievement of ESPO's objectives.

The Internal Audit Service's task is to carry out independent and objective 'assurance' type audits of the adequacy and effectiveness of these controls and, if necessary, highlight weaknesses and recommend improvements 'Consulting' type audits add value by allowing the auditor to give early commentary on management's design of controls in say a new system or process.

How Internal Audit Service plans its work

Much internal audit work can be planned. To this end an annual plan is produced, detailing the main areas of proposed work. The plan for 2013-14 was produced from a combination of: -

- Consultation about emerging risks, planned changes and potential problems with the Director, Assistant Director (Finance), the Consortium Treasurer and Secretary, and the External Auditor
- Evaluation of governance arrangements e.g. plans, committee reports, accounts, risk register and governance statements
- Comparisons against risks affecting similar purchasing consortia
- 'Horizon scanning' new and emerging risks from professional and industry sources.

A steady improvement in ESPO risk management and governance arrangements and the Director's recognition of responsibilities for internal control systems, allowed the HoIAS to utilise the information above, to devise the plan.

"Joint audit" work with PwC

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.

Risk based auditing

LCCIAS uses a number of techniques to reach its opinions on what level of assurance can be provided that risks are being identified, evaluated and managed. Much work will be based around a "risk based" audit. With this technique key risks (based on likelihood and impact) are identified and agreed at the start of the audit. The quality of controls to mitigate these risks is then tested

High importance (HI) recommendations

Following audit testing, where risk levels are considered still to be significant, (in line with ESPO's own risk scoring methodology), then recommendations are designated as High Importance (HI). Action taken to implement the recommendation is always re-tested by LCCIAS.

No new HI recommendations were made in relation to 2013-14 audits, HI recommendations carried forward from prior year audits on business continuity and rebates processes, were confirmed as implemented during 2013-14.

ESPO member involvement

The Finance & Audit Subcommittee receives audit reports i.e. annual plan, quarterly progress against the plan (including progress against implementing HI recommendations), annual report (including the HoIAS opinion) and the review of effectiveness of the system of internal audit.

Management Committee receives the annual report and shall be responsible for approving the Internal Audit Charter for ESPO as part of PSIAS.

Summary of Work**Audits undertaken in 2013-14**

Annual Governance Statement

Work undertaken during the year is listed below

The audit evaluated the arrangements to demonstrate compliance to the principles of good governance outlined in the CIPFA/SOLACE Framework. The work formed part of the HoIAS annual opinion on the adequacy and effectiveness of the internal control environment, concluding that overall, there has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.

Performance Management

The audit evaluated how the performance management framework had been designed and implemented and how responsibilities had been allocated. Some recommendations around further aligning performance management against the ESPO four year business strategy, and further development and implementation of some agreed target measures.

Medium Term Financial Strategy

An audit of the processes for validating assumptions, monitoring achievements and reporting progress against efficiency projects. Recommended improvements to the framework for managing and monitoring projects contained within the Continuous Improvement Plan and reporting progress against the Plan to Finance and Audit Subcommittee

Risk Management	Whilst there was evidence that some risk management activities were operating adequately, there was further scope to improve effective embedded risk management into operational activity.
Business forecasting	There are adequate controls in place to ensure that forecasts and annual budgets are approved correctly and are reviewed on an annual basis. Responsibilities are clearly assigned and timescales agreed for preparation of the annual budget. Information used in the annual budget process is accurate and budget holders are consulted. Minor recommendations around reporting key assumptions and improving budget working papers to include reasons for any significant changes, and clearly identifying when savings are as a result of specific projects within the Efficiencies Programme.
Fleet management – Vehicle Operating Licence	Evaluation of controls and testing confirmed that ESPO is compliant with the Vehicle Operating Licence ‘General Conditions and Undertakings’
Trading performance & distribution of surplus	There is an adequate audit trail from the Combined Preliminary reports presented to the Senior Management Team (SMT) for February 2014 back to the General Ledger. A framework for the calculation and distribution of dividends payable to members exists. Verification of the dividends distributed will be subject to a short audit in the 2014/15 financial year.
Payroll changes	Variations to pay are adequately supported by appropriately authorised documentation and changes have been made in accordance with instructions. Recommended that ESPO investigates delays by East Midlands Shared Services in issuing contracts and ESPO management is reminded on procedures in relation to new starters and the use of e-notification forms
General ledger reconciliation	This audit is required by the External Auditor in their annual assessment of the likelihood of material misstatement in the Authority’s financial accounts. Concluded that accounting procedures are being applied to ensure the completeness and accuracy of the General Ledger.

Attendance management	Recommended ESPO develop absence performance metrics now that there is meaningful data also recommended to ensure consistent application of the Attendance Management Policy by managers and a more efficient method of informing payroll of absences
Budget management	The budget management framework was evaluated. Whilst the budget position is reported accurately to SMT regularly and discussed and there have been some delegations to Assistant Directors, the audit recommended that processes could be improved by introducing a longer timeframe for reviewing budgets, producing forecasts and the introduction of commitments.
Servicing Authority	The draft SLA and processes were evaluated. Recommendations around including responsibilities and naming of key officers, clarifying the basis of charges both proposed and invoiced and monitoring and reporting service provision
Anti-fraud and corruption	The scope contained a review of policies and procedures, awareness and training. Minor recommendations are reliant on developments at the Servicing Authority
IT General controls	The External Auditor relies on this audit in their annual assessment of the likelihood of material misstatement in the Authority's financial accounts. Assurance is partly obtained through review of the integrity of the ICT infrastructure and associated applications that either directly or indirectly contributes to the production of the financial statements. Substantial assurance that the ICT infrastructure is robust and that the range of controls expected by the External Auditor are well designed and consistently applied.
Stock management	Evaluation of controls designed to ensure optimum stock management and warehouse operations. A few recommendations about performance indicators and mitigating risks to the optimisation model. The External Auditor may choose to place reliance on this audit.
Rebates income	Annual audit to validate that ESPO has received rebate in line with what was expected based on suppliers' turnover. Some disparity was found and although values are not material, ESPO will have scope to follow up with suppliers.

Unplanned work	Three small pieces of work were undertaken – validating the accuracy of records migrated to the new gas contract; reporting a minor whistleblowing investigation and guidance on expense claims.
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Performance against the plan can best be 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

Explanations for not providing the planned 200 days included 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. Nevertheless, a number of unplanned jobs compensated for the postponements and a wide spectrum of ESPO's risks was still been covered

Person to Contact about this Report

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