



EASTERN SHIRES
PURCHASING
ORGANISATION

A LOCAL AUTHORITY PURCHASING AND DISTRIBUTION CONSORTIUM

CONSORTIUM SECRETARY: JOHN SINNOTT, MA, Dipl. P.A.,
CHIEF EXECUTIVE, LEICESTERSHIRE COUNTY COUNCIL

Date: 27 November 2013
My Ref BS/ESPO
Please ask for: Ben Smith
Direct Dialling (0116) 305 6225
e-mail: ben.smith@leics.gov.uk

To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held at on Thursday, 5 December 2013 at 10.30 am in the Framland Committee Room, County Hall, Glenfield. Leicestershire.

A buffet lunch will be provided after the meeting. Please telephone or email me (details above) by Monday 2 December to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

Ben Smith

for Consortium Secretary

AGENDA

- | <u>Item</u> | <u>Marked</u> |
|--|---------------|
| 1. Minutes of the meeting held on 26 September 2013. | (Pages 3 - 8) |
| 2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda. | |
| 3. Declarations of interests in respect of items on this agenda. | |
| 4. Sales and Marketing. | |
- (Presentation of the Director)

5. Arrangements for the withdrawal of Leicester City Council from the Consortium. (Pages 9 - 11)

(Joint Report of the Director and Consortium Secretary)

6. External Audit Plan 2013/14. (Pages 13 - 36)

(Joint Report of the Director and Consortium Treasurer)

During discussion of Item 7 below, the Chairman will be asked to consider Item 12 on the agenda which will involve the likely exclusion of the public.

7. Director's Progress Report. (Pages 37 - 40)

(Report of the Director)

8. Items referred by the Finance and Audit Subcommittee.

9. 2014 Meeting Dates.

10. Any other items which the Chairman has decided to take as urgent.

11. Exclusion of the Public.

The public are likely to be excluded during the consideration of the following items of business in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information):

12. Supplementary Report Informing Director's Progress Update. (Pages 41 - 47)

(Report of the Director)

(Exempt under paragraphs 3 and 10 of Schedule 12A)

13. Four Year Medium Term Financial Strategy 2014/15 - 2017/18 and Annual Budget Planning. (Pages 49 - 55)

(Report of the Consortium Treasurer)

(Exempt under paragraphs 3 and 10 of Schedule 12A)

14. GEMS Gas Billing System. (Pages 57 - 70)

(Report of the Director)

(Exempt under paragraphs 3 and 10 of Schedule 12A)

Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Thursday, 26 September 2013.

PRESENT

Cambridgeshire County Council

Cllr. B. Chapman; Cllr. J. Reynolds

Leicester City Council

Cllr. P. Westley

Leicestershire County Council

Cllr. R. K. A Feltham; Cllr. D. Snartt

Lincolnshire County Council

Cllr. S. Rawlins (in the chair); Cllr. S. Ransome;

Norfolk County Council

Cllr. I. Monson

Peterborough City Council

Cllr. J. Holdich OBE

Apologies for absence.

Apologies for absence were received from: Cllr. A. Cockburn and Cllr. D. Parsons – Warwickshire County Council, Cllr. M. Smith – Norfolk County Council, Cllr. D. Seaton – Peterborough City Council and Cllr. J. Thomas – Leicester City Council.

21. Minutes.

The minutes of the meeting held on 27 June 2013, having previously been circulated, were taken as read, confirmed and signed as a correct record.

22. Urgent Items.

The Chairman reported that there were no urgent items for consideration.

23. Declarations of interests.

The Chairman invited those who wished to do so to declare an interest in respect of items on the agenda.

No declarations were made.

24. Warehouse Operations.

The Chairman welcomed David Godshill, ESPO's new Assistant Director – Operations, to the meeting who delivered a presentation on the on-going implementation of the Indigo warehouse picking system and future improvements to be made. A copy of the presentation is filed with these

minutes.

Arising from the presentation and discussion, the following points were noted:

- i) Having sustained 15-20% of stock throughput via Indigo from June onwards, a phased implementation to be ratcheted up during September and October 2013 through to a 90% deployment by the end of March 2014 was planned;
- ii) The knock on benefits in terms of manpower planning and associated benefits would be reflected in the 2014/15 budget and for future years;
- iii) In order to optimize the operation of warehouse picking, initiatives to flatten peaks in ordering through the year were being undertaken, such as the discounted offer to encourage schools to order for delivery in August, rather than waiting until the beginning of the Autumn term;
- iv) Online ordering from customers, with a challenging target to have this rise to 20% in the next twelve months, alongside working with suppliers to be able to fulfil 'just in time' deliveries would create further efficiencies, improve the customer experience and stock accuracy/levels.

AGREED:

That the presentation and progress made in delivering improvements to ESPO's warehouse operations be welcomed.

25. External Audit of the 2012/13 Financial Statements.

The Management Committee considered a joint report of the Director and Consortium Secretary which reported on the external auditor's key findings from the 2012/13 financial statements and which presented the letter of representation from the Consortium Treasurer to the auditors. A copy of the report, marked 'item 5', is filed with these minutes.

The Chairman welcomed Ali Breedon and Tom Gibbs from Pricewaterhousecoopers, ESPO's external auditors, to the meeting who communicated the results of their audit.

Arising from discussion, the following principal points were noted:-

- i) The external auditors reported a very straightforward and positive audit report for 2012/13 and that an unqualified audit opinion would be issued. No significant matters were required to be reported back to the Committee;
- ii) The auditors were satisfied with good progress made during 2012/13 in terms of economy and efficiency and that proposals for further improvements in 2013/14 were appropriate and in place;
- iii) Management Committee members confirmed they remained satisfied with the appropriateness of accounting for gas accruals on a cash basis,

noting that ESPO did not have access to its customers' meters, that the methodology was consistent with previous years and that the impact was unlikely to be material;

- iv) As part of the external auditors work on fraud, Members also confirmed they were unaware of any fraudulent activity at ESPO that had arisen and that should be brought to their attention.

The Chairman thanked Ali Breedon and Tom Gibbs for their contribution to the meeting.

RESOLVED:

That the external audit of the financial statements 2012/13 be approved.

26. Statement of Accounts and Annual Governance Statement 2012/13.

The Management Committee considered a joint report of the Director and Consortium Treasurer which presented the Statement of Accounts and Annual Governance Statement for the financial year 2012/13. A copy of the report, marked 'item 6', is filed with these minutes.

Arising from discussion, the following points were noted:

- i) The Finance and Audit Subcommittee had considered and been satisfied with the draft statement of accounts at its meeting on 3 September 2013, thanking the Director and his staff for the work undertaken in preparing the Statement of Accounts and Annual Governance Statement;
- ii) The requirement to value ESPO's land and building on an annual basis was queried on efficiency grounds and it was confirmed by the external auditors that for accounting standards, whilst this was a requirement the methodology could be varied if agreed prior to the financial year in which it was due to be undertaken.

It was moved, seconded and approved that:-

'From the 2014/15 financial year onwards, the Director be requested to undertake a more informal valuation of ESPO's land and buildings using indices on a bi-annual basis, with a formal independent valuation being undertaken in each intervening year thereafter.'

RESOLVED:

- a) That the draft Statement of Accounts and Annual Governance Statement for 2012/13 be approved;
- b) That from the 2014/15 financial year onwards, a more informal valuation using indices be carried out, on a bi-annual basis, with a formal independent valuation being undertaken in each intervening year.

27. Change to the Order of Business.

The Chairman sought and obtained the consent of the Management Committee to vary the order of business from that set out in the agenda.

28. Director's Progress Update.

The Management Committee gave consideration to a report of the Director, the purpose of which was to update members on the actions and progress made since the last ESPO Management Committee meeting held on 26 June 2013. A copy of the report, marked 'item 7', is filed with these minutes.

Arising from discussion, the following points were noted:

- i) Financial performance was ahead of budget for the year to date;
- ii) It was confirmed that Leicester City Council had now formally notified the Consortium Secretary in writing of its desire to leave the ESPO Consortium;
- iii) Members were supportive of the collective view of the Chief Officer Group, which having met in late August was as follows:-
 - Leicester City's desire to exit prior to the two years notice required in the current Consortium Agreement should be facilitated, noting that a working date of 31 March 2014 had been proposed;
 - A due diligence exercise being undertaken to assess Leicester City's contractual position with ESPO should be completed;
 - The Legal and Governance Group should be reconvened to discuss the terms upon which the arrangements were to be made for Leicester City Council's exit from the Consortium.

RESOLVED:

That the contents of the report, and in particular the position in respect to Leicester City Council's intention to leave the Consortium, set out in paragraphs 4 and 5 of the report together with the further update now provided, be noted.

29. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled: 'Supplementary Report Informing Director's Progress Update.' (Item '11') as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

30. Supplementary Report Informing Director's Progress Update.

The Management Committee received an exempt report of the Director, which set out further supplementary information to Item 7, Progress Report of the Director. A copy of the exempt report, marked 'Item 11' is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

That the contents of the report be noted.

[The meeting then reconvened into public session.]

31. Items referred by the Finance and Audit Subcommittee.

There were no items referred from the Finance and Audit Subcommittee.

32. Date of Next Meeting.

It was noted that the next meeting of the Management Committee would be held on 5 December 2013.

33. Exclusion of the Public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled: 'ESPO Business Strategy and Future Direction.' (Item '10') as defined in paragraphs 3 and 10 of Schedule 12A of the Act; and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

34. ESPO Business Strategy and Future Direction.

The Management Committee received an exempt report of the Director which informed members of further initiatives to be included as deliverables within the ESPO strategy, of a proposal to alter the timetable for refreshing the Strategy document, and of progress made against the updated 18 month rolling plan, last refreshed at Management Committee on 7 March 2013.

A copy of the exempt report, marked 'Item 10' is filed with these minutes.

The exempt report was not for publication by virtue of paragraphs 3 and 10 of Section 12A of the Local Government Act 1972.

RESOLVED:

a) That approval be given to the proposed revisions to the 2012-16 Business

Strategy's Mission, Vision and Organisational Values as outlined in paragraph 8 of the report;

- b) That the updated 18 month rolling plan attached as Appendix A to the report be approved; and
- c) That approval be given to the realignment of the Business Strategy cycle to that of the Medium Term Financial Strategy as outlined in paragraph 7 of the report.

10.30 am - 12.00 pm
26 September 2013

CHAIRMAN



**ESPO MANAGEMENT COMMITTEE –
5 DECEMBER 2013**

**ARRANGEMENTS FOR THE WITHDRAWAL OF
LEICESTER CITY COUNCIL FROM THE
CONSORTIUM**

**REPORT OF THE DIRECTOR AND CONSORTIUM
SECRETARY**

Purpose of Briefing Note

1. The purpose of this report is to update members on operational progress in managing the withdrawal of Leicester City Council from the ESPO Consortium and progress in amending the Consortium Agreement.

Background

2. Leicester City Council has taken a decision to withdraw from the ESPO Consortium.
3. This decision was taken following the development of a local procurement task force and was a strategic decision by the authority to rely less on national framework solutions in favour of public contracts with local suppliers.
4. As a result, it has decided that, at this time, being part of the ESPO management committee is not consistent with their intended future direction.
5. Leicester City Council however, has confirmed its on-going commitment to using ESPO's services, frameworks and catalogue, including engaging ESPO on a project-by-project basis. They are choosing to do this as a non-member authority rather than as a member authority, and will review their usage in due course, as commitments fall away.

Due Diligence Work

6. From a commercial perspective, ESPO officers are carrying out a programme of 'due diligence' work with regards to contracts where Leicester City Council is currently engaged, to ensure that any potential adverse commercial impacts have been considered. The headlines arising from this work area are as follows.

7. It is the Council's intention, generally, to continue to use existing frameworks until they expire. It expects to review options for the procurement requirements as current frameworks expire and then consider whether it re-procures locally or seeks to participate in ESPO solutions.
8. ESPO is conducting a 'due diligence' review to identify any liabilities arising from the change in Leicester City Council's status, including a review of the contracts database to identify:
 - Contracts for that authority only
 - Contracts for that authority and other specified customers
 - Regional/National/Pro5 contracts
 - Generic/multi-client contracts/frameworks where the authority is a significant customer
9. Further review by Category will identify:
 - Outstanding access agreements, claims, disputes or challenges
 - Projects/frameworks underway but not completed with potential for claims, disputes, challenges arising (a) before the authority withdraws from membership and (b) subsequently
 - Any contracts/frameworks where there is a rebate sharing or 'customer' rebate
10. Situations regarding other specific projects/undertakings are as follows:
 - Food category support – ESPO will be participating in the Leicester Food Forum.
 - Fleet Maintenance support – ESPO will be providing low-level support to this procurement, on a no fee/no liability basis.
11. Any residual liabilities in relation to contracts post expiry are to be identified.
12. New projects/commissions extending beyond March 2014 or commencing after March 2014 will be subject to a Business Case review on a case-by-case basis. Engagement of ESPO by Leicester City Council is to be covered by the standard form of Proposal developed by the Legal & Governance work stream, and managed on a non-member basis.
13. As at 20/11/2013, no financial concerns or irregularities have been identified.

Legal and Governance Group

14. Legal representatives of the authorities have attended at a meeting of the group. Prior to the meeting of the group, the expectation was that it would be necessary to consider a new Agreement to allow for Leicester City Council to leave the Consortium without serving a full period of notice and subject to payment of the dividend for 2013/14 and indemnities as to liabilities which may arise. At the meeting, a proposal

was put forward that the Council should consider a rather more simple arrangement, of not taking the dividend but not being expected to sign up to any indemnities. The response of Leicester City Council to this proposal has been to confirm that they wish to leave on the basis as previously discussed (as above) and accordingly, further work will be required to formulate the necessary agreement.

Resources Implications

15. Resources implications will be dependent upon the outcome of discussions at the Legal and Governance Group.

Recommendation

16. The Committee is asked to note the contents of the report.

Equal Opportunities Implications

17. None.

Risk Assessment

18. See section on Due Diligence activity to date.

Background Papers

19. Progress Report of the Director – ESPO Management Committee on 26 September 2013

Officers to Contact:

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j.doherty@espo.org, 0116 2657931

David Morgan, County Solicitor
David.morgan@leics.gov.uk, 0116 3056007

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ESPO MANAGEMENT COMMITTEE – 5 DECEMBER 2013

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

EXTERNAL AUDIT PLAN 2013/14

Purpose of Report

1. The purpose of this report is to provide details of the scope of the audit to be undertaken by ESPO's external auditor, PriceWaterhouseCoopers, for the audit year of 2013/14.
2. Thomas Gibbs and Richard Bacon of PwC will be present at the meeting to present the Plan.

Resources Implications

3. None.

Recommendation

4. Members are asked to note the contents of the Audit Plan 2013/14.

Equal Opportunities Implications

5. None have been identified.

Background Papers

6. None.

Officers to Contact:

John Doherty – Director (Tel: 0116 265 7931)
j.doherty@espo.org

Brian Roberts – Consortium Treasurer (Tel: 0116 3057830)
Brian.Roberts@leics.gov.uk

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Eastern Shires Purchasing Organisation

External Audit Plan 2013/14

Government and Public
Sector

December 2013



Members of the Management Committee
Eastern Shires Purchasing Organisation
Barnsdale Way
Grove Park
Enderby
Leicester
LE19 1ES

Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

We would like to thank Members and Officers of the Organisation for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact Richard Bacon or Tom Gibbs.

Yours faithfully,



PricewaterhouseCoopers LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's [website](#). The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2013/14 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Management Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2013/14

We will:

- audit the statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Organisation's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Management Committee throughout the year.

Risk assessment

We considered the Organisation's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

Responsibilities

Officers and members of each local government body are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

Risk Assessment

Risk Assessment Results

Eastern Shires Purchasing Organisation continues to face a period of organisational change. Your customers face extremely challenging spending cuts and changes in policy which you must adapt to as an Organisation. We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the accounts and our true and fair audit opinion are categorised as follows:

● Red	Significant	Risk of material misstatement in the accounts due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
● Green	Other	We perform standard audit procedures to address other risks in any material financial statement line items.

Auditing Standards require us to include two fraud risks as Significant:

- Management override of controls:

“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- Income recognition:

“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.

This is extended to include expenditure recognition in public sector bodies.

Both are included in our risk assessment.

Summary of audit risks

A summary of the audit risks identified for 2012/13 is set out below, with further information provided on the following pages.

Risk arising	Potential impact upon PwC work	Categorisation for accounts risks
	<i>Accounts true and fair opinion</i>	<i>Value for money conclusion</i>
Management override of controls	◆	● Significant
Income and expenditure recognition	◆	● Significant
Warehouse management system	◆	● Other

Risks	Risk Level	Audit approach
Management Override of Controls In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly. In your organisation, as the pressure to deliver savings and performance targets increases, so does the risk of management override.	● Red	We will review your internal control structure. In particular we will focus our work on testing of journals. This will provide you with assurance over the level of manual and automated journals. We will perform targeted testing over significant estimates within the financial statements. We will carry out unpredictable procedures – this will involve performing ad hoc testing that has not previously been performed over one or more controls or financial statement balances.
Revenue and Expenditure Recognition There is a risk that the Organisation could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.	● Red	We will: <ul style="list-style-type: none">• review the design and operating effectiveness of key income and expenditure controls;• evaluate the accounting policies for income and expenditure recognition;• test the appropriateness of journal entries and other adjustments;• review accounting estimates for income and expenditure, for example, rebates and provisions;• analyse trends in relation to income and expenditure during the year and seek to understand any unusual variations; and• reconcile your management information to the information presented in the accounts on a gross basis.
Warehouse Management System You have continued to implement a new warehouse management system during 2013/14. This change represents an inherent risk in relation to data integrity, data transfer and integration with your financial system. During our planning work we will consider whether our work needs to be extended in this year of system change, relying where we can on internal audit's work.	● Green	We will review the work of internal audit or external experts around the implementation of the new warehouse system. We will perform sufficient audit procedures in order to ensure the reliability of the data within the new system. We will perform a review of stock count controls, including attendance at at least one stock count, in order to gain assurance over the accuracy and completeness of inventory.

Audit approach

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts, and
- Use of Resources, including a review of the Annual Governance Statement

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2012/13 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

During the course of our audit work it is not unusual to find relatively small misstatements which do not raise significant concerns for those charged with governance. ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

The ISA suggests a benchmark of 5 percent of our audit materiality level, which would suggest a 'clearly trivial' level of approximately £94,000 based on the 2012/13 audit. In the previous year, we agreed with you that we would report errors detected over this threshold, we intend to continue using this 5% benchmark for the 2013/14 audit. We therefore propose to discuss these smaller misstatements with management, but apply a threshold to the value of individual misstatements that we report to those charged with governance to be discussed and agreed with you.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Organisation. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Internal Audit

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

We plan to rely on the work of internal audit for key controls in the following areas:

- Bank reconciliation;
- Income (control accounts; material feeder systems);
- Payables (control accounts; material feeder systems);
- General Ledger;
- Stock check;
- Payroll; and
- IT General Controls.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2012/13 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances.

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the corporate governance committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of an appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur



Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

We enquire of the Management Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Our team and independence

Your audit team has been drawn from our government and public sector team based in the Midlands. Your audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
Engagement Partner Richard Bacon 3 rd year on the audit 0121 232 2598 richard.f.bacon@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Director and Members. Richard is also the Engagement Partner for Leicestershire County Council.
Engagement Manager Tom Gibbs 3 rd year on the audit 07850 516463 Thomas.j.gibbs@uk.pwc.com	Tom is the Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.

Our team members

It is our intention that, wherever possible, staff work on the ESPO audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

As external auditors of the Organisation we are required to be independent of you in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Non Audit Work

At this stage we have not planned to undertake any work for you in addition to the work we have set out in this Plan.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Organisation, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

Our team works on the audit engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Management Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Plan	December 2013
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum) ISA (UK&I) 260 report incorporating specific reporting requirements, including: <ul style="list-style-type: none"> • Any expected modifications to the audit report; • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; • Material weaknesses in the accounting and internal control systems identified as part of the audit; • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value for money conclusion 	Throughout the audit September 2014
Audit reports	Financial Statements including Use of Resources	September 2014
Other public reports	Annual Audit Letter A brief summary report of our work, produced for Members and to be available to the public. This will form part of our ISA260 audit report.	September 2014

Audit fees

The Audit Commission has provided indicative audit fee levels for the Joint Committee for the 2013/14 financial year, which depend upon the level of expenditure and potential risk. The indicative fee scale for the audit of the Committee is £14,202 for 2013/14, which is the same as the prior year.

Due to our assessment of risk and your control environment, we categorise the Committee as low risk. This is the lowest fee we can charge you under the Audit Commission fee scales for 2013/14.

	2013/14	2012/13
Accounts	14,202	14,202
Total	14,202	14,202

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- No further work is required to understand and test controls in the new warehousing system
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based; and
- Our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Other engagement information

The Audit Commission appoint us as auditors to Eastern Shires Purchasing Organisation and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT.

In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

In the event that, pursuant to a request which Eastern Shires Purchasing Organisation has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Eastern Shires Purchasing Organisation agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Eastern Shires Purchasing Organisation shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC Eastern Shires Purchasing Organisation discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.



ESPO MANAGEMENT COMMITTEE – 5 DECEMBER 2013

DIRECTOR'S PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of Briefing Note

1. The purpose of this report is to update members of the actions and progress made since the last ESPO Management Committee meeting held on 26/09/2013.

Overall Financial Performance

2. Overall financial performance can be summarised as:
 - Sales to September at £47.5m are ahead of budget of £44.2m
 - Rebates, a proxy for framework engagement, are ahead of target at £1,778k against a budget £1,674k.
 - Overall surplus at £1.4m year to date YTD is ahead of budget of £1.2m YTD

ESPO Internal Developments

Member Liaison

3. I have continued to meet with members on a quarterly basis to discuss key themes which are arising and any items pertinent to members' specific needs.
4. Members will be pleased to learn that market basket and Top 100 benchmarking data is now available through the member portal as agreed through the members meetings.
5. Whilst ESPO continues to benchmark favourably in both of these reviews, it is important to note that we do not set out to offer price guarantee on 100% of products.
6. We had invited members to visit ESPO for a tour and an overview of the business. On 14/11/2013, Councillor John Reynolds (Cambridgeshire) and David Snartt CC (Leicestershire) attended for a full morning, spending an hour with myself before meeting up with each of the Assistant Directors.

All Staff Briefings

7. In October, I delivered eight briefing sessions across ESPO, addressing the staff survey results, outlining our half-year financial position, Sales & Marketing growth and successes, Operations & Continuous Improvement updating on the Indigo rollout, and the future direction of Procurement & Compliance.

Update on Consortium Membership

8. This item appears for discussion elsewhere in the agenda marked as 'item 5'. The operational relationship between ESPO and Leicester City Council remains 'business as usual' whilst its terms of exit are discussed and we will continue to encourage this. Future decisions regarding engagement in ESPO procurement solutions will be taken as they arise.

External Activities and Developments

PBOs, Pro5 members and beyond

9. I continue to work with partners and customers outside of the traditional membership relationship. This has included meetings with the Crown Commercial Service (CCS) (formerly Government Procurement Service (GPS)), YPO and various bodies in the private sector helping me to develop a further understanding of market dynamics, which is increasingly changing.

In this vein, I have met or hosted meetings with the East Midlands Heads of Procurement, the London Contracts and Supplies Group (LCSG), the London Fire Brigade and the Ministry of Defence.

10. ESPO had a stand in conjunction with Pro5 at this year's annual Society of Procurement Officers (SOPO) Conference, 11/11/2013. Category Manager Michelle Brankovic collected her 'Finalist Award' for SOPO Procurement Professional of the Year.

The Central Buying Consortium (CBC) is leading on a Pro5 Directors meeting December 16 at ESPO.

11. On 11 December 2013, a Member Procurement Forum is taking place at ESPO. Member Heads of Procurement will meet their counterparts to gain a greater understanding of the change in scope and personnel within ESPO procurement teams. Work is also underway to develop Heads of Procurement networking events generally.

Other organisations

12. ESPO attended the Federation of Small Businesses (FSB) launch and signature of the Small and Medium Enterprise (SME) Friendly Procurement Charter in Leicester on 03/10/2013. Present were Baroness Hanham CBE, Parliamentary Under Secretary of State for Communities and Local Government as well as John Allan, FSB

National Chairman and signatories to the charter - Sir Peter Soulsby, City Mayor, Leicester City Council; Cllr Blake Pain, Cabinet Lead Member for Economic Development, Leicestershire County Council; Bernard Greaves, Board Member, LLEP; Cllr Ernie White, Leader, Blaby DC; Cllr John Boyce, Leader, Oadby & Wigston BC, John Doherty, Director, ESPO.

Staffing

Staff Survey

13. There was a 68% response rate to the ESPO staff survey conducted in August. This is a strong response to such a survey, and provides a sufficient number to form an accurate assessment of staff perception.
14. A 'People Plan' is being developed by the Senior Management Team (SMT) based on their interpretation of the responses and key themes which will form a key part of the 'People Plan' with ESPO's emerging strategy.
15. The Senior Management Team has reviewed all of the responses to the survey, identifying the following areas for improvement:
 - Communications
 - Reward and recognition
 - Environment and equipment
 - Team management
 - Learning and development
16. The SMT review will be synthesised with the findings of the third-party analyst in order to develop the 'People Plan'.
17. I will create and sponsor this plan within the organisation, ensure its delivery and report regularly within the organisation and to the Management Committee.

ESPO Risk and Governance Update

Audit Reports

18. In September, ESPO underwent a Health & Safety audit, looking at Health & Safety Management in warehouse activities, fleet management and general property management.
19. The audit identified a number of challenges across these areas and made a number of recommendations. To address these, ESPO has put in place an improvement programme and has appointed a Health & Safety Manager. The operations team at ESPO have been working with the Servicing Authority's (Leicestershire County Council) Health and Safety team, which has been providing practical guidance and noting progress. All the points identified by LCC have been addressed.

20. The standard documentation in use for existing pre-procurement panels and contract award panels has been reviewed and improved to allow for additional information e.g. conflict of interest information, enhanced evidence market intelligence preparatory work.
21. ESPO is in the process of engaging a partner to support the training, interpretation and benefit realisation from the forthcoming new EU procurement directive for both ESPO and Member authorities to utilise. This is likely to become statute in mid-2014, replacing the existing public contract regulations 2006.

Supplementary Information Informing the Progress Report

22. Further information of a commercially sensitive nature which informs this report is contained under Item 12 (Exempt Report), on the agenda for this meeting.

Resources Implications

23. None arising directly from this report.

Recommendation

24. Members are asked to note the contents of the report.

Officer to Contact

John Doherty, Director
J.Doherty@espo.org
0116 265 7931

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