



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: 7 February 2014
My Ref PH/ESPO
Please ask for: Ben Smith
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To: Members of the ESPO Finance and Audit Sub Committee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Sub Committee will be held at on Monday, 17 February 2014 at 10.30 am in the Gartree Committee Room, County Hall, Glenfield , County Hall, Glenfield, Leicester.

Yours faithfully,

Ben Smith

for Consortium Secretary

AGENDA

1. Minutes of the meeting held on 3 September 2013. (Pages 3 - 6)
2. Declarations of interest in respect of items on the agenda.
3. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

During discussion of Item 4 below, the Chairman will be asked to consider Item 8 on the agenda which will involve the likely exclusion of the public.

4. Management Accounts to December 2013. (Pages 7 - 11)

(Joint Report of the Director and Consortium Treasurer)

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
Glenfield ◦ Leicestershire ◦ LE3 8RA ◦ Tel: 0116 232 3232 ◦ Email: democracy@leics.gov.uk



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5. Progress Against Internal Audit Annual Plan. (Pages 13 - 24)
(Report of the Consortium Treasurer)
6. Date of next meeting.
11.00 am – Tuesday 10 June 2014.
7. Any other items which the Chairman has decided to take as urgent.

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):

8. Supplementary Information Informing the Management Accounts to December 2013. (Pages 25 - 32)
(Joint Report of the Director and Consortium Treasurer)
(Exempt under Paragraphs 3 and 10 of Schedule 12A)
9. Forecast Outturn 2013/14 and Draft MTFS 2014/15 - 2017/18. (Pages 35 - 55)
(Joint Report of the Director and Consortium Treasurer)
(Exempt under paragraphs 3 and 10 of Schedule 12A)

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Tuesday, 3 September 2013.

PRESENT

Cambridgeshire County Council

Cllr. J. Reynolds

Leicestershire County Council

Dr. R.K.A. Feltham CC

Lincolnshire County Council

Cllr. S. Rawlins

Leicester City Council

Cllr. P. Westley

Peterborough City Council

Cllr. D. Seaton

16. Minutes of the meeting held on 3 June 2013.

The minutes of the meeting held on 3 June 2013, having previously been circulated, were agreed as a correct record and signed.

17. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

18. Declarations of interests in respect of items on this agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

19. Change to the Order of Business.

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

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

The Subcommittee received a joint report of the Director and Consortium Treasurer setting out the Draft Statement of Accounts and Annual Governance Statement 2012/13 prior to their consideration by the Management Committee. A copy of the report marked 'Item 4' is filed with these minutes.

Arising from discussion the following points were made:

- (i) Members requested to be updated regularly on the numbers of new customers using ESPO. It was suggested that this information could be provided on the Balance Scorecard;
- (ii) The number of short term debtors had reduced. This was the result of efforts by ESPO to increase its cash balances;
- (iii) Very few suppliers with which ESPO worked became insolvent; however, in such circumstances ESPO might develop payment plans to enable suppliers to make rebate repayments; this approach was considered preferable to, for example, seeking repayment through legal action;
- (iv) ESPO members of staff operated under the terms and conditions of the Servicing Authority and as such did not receive any discretionary awards on retirement;
- (v) ESPO monitored the number of schools which remained customers following transition to academy status;
- (vi) The Subcommittee was reassured that actions in relation to identified areas for improvement within the Annual Governance Statement were underway or had already been completed;
- (vii) Members commented that it would be helpful for progress with regard to ESPO's succession planning for the senior management team to be reported to the Management Committee;
- (viii) ESPO received a low number of Freedom of Information requests;
- (ix) The Subcommittee noted that interviews by the external auditors with re-elected members and surveys of staff to evaluate knowledge of department and corporate principles, plans and policies had not been undertaken; as had been reported within Annual Governance Statement. The document would be updated to reflect this prior to its final consideration by the Management Committee.

RESOLVED:

- (a) That it be noted that the Draft Statement of Accounts for 2012/13 will be submitted to the Management Committee for approval at its meeting on 26 September 2013;
- (b) That the Director be thanked for the work he and his staff had undertaken to prepare the Draft Statement of Accounts and Annual

Governance Statement.

21. Management Accounts to July 2013.

The Subcommittee received a report of the Director setting out ESPO's Management Accounts to July 2013. A copy of the report marked 'Item 5' is filed with these minutes. [Further details informing the Management Accounts to July 2013, of a commercially sensitive nature, were considered under exempt business in Minute 23 below.]

Arising from discussion the following points were made:

- (i) It was noted that, in respect of late orders, ESPO had experienced its best year for customer service;
- (ii) The Subcommittee was pleased to note actions being undertaken to reduce the costs of using agency staff.

RESOLVED:

That the contents of the report be noted;

22. 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 Information Informing the Management Accounts to July 2013' 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.

23. Supplementary Information Informing the Management Accounts to July 2013.

The Subcommittee considered an exempt report of the Director which set out information regarding the ESPO's Management Accounts which contained details of a commercially sensitive nature. A copy of the exempt report, marked 'Item 8', 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 information contained within the report be noted.

[The meeting then reconvened into public session.]

24. Progress against Internal Audit Annual Plan.

The Subcommittee received a report of the Consortium Treasurer the purpose of which was to give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work and highlight audits where high importance recommendations had been made. A copy of the report marked 'Item 6' is filed with these minutes.

The Subcommittee was advised that the Head of Internal Audit Service had concluded his investigation into a minor whistle-blowing occurrence. He had reported his findings to the Consortium Treasurer and Consortium Secretary and they were both satisfied that the matter had reached a successful conclusion.

RESOLVED:

That the contents of the report be noted.

25. Date of next meeting- Tuesday 19 November 2013.

It was noted that the next meeting would be held on Tuesday 19 November 2013.

10.30 am - 11.40 am
03 September 2013

CHAIRMAN



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 17 FEBRUARY 2014

MANAGEMENT ACCOUNTS TO DECEMBER 2013

REPORT OF THE DIRECTOR

Purpose of Report

1. This report sets out the results for the first nine months of trading April to December 2013 as per the management accounts with explanations for the more significant variances to budget.

Background

2. The Finance and Audit Subcommittee are updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

Trading Summary

Income

2. Stores' sales value has increased this year to date by £1,715k (5.6%) to £32.4m compared to the prior year £30.7m. Compared to budget we are £803k ahead for the year to date or 2.5%.
3. Prices in Store sales were increased by 0.01% in the budget so the above represents a volume increase of 5.6% on the prior year. Last year sales grew by 7% including a 1.9% price increase giving a net volume increase of 5.1%. Thus after 18 months of the original 4 year plan stores volume has increased by approximately 10.7%. This is a good start on the stated four year objective of 20% growth in stores volume in the strategy paper.
4. Overall Direct sales are 7.3% up on budget and 0.8% down on last year. The reason for the fall is the reduction in activity in the Department of Education Phonics initiative. This was budgeted for but the slowdown in Q1 had been deeper than expected and at that point we were 18% down on the prior year. Q2 has shown a substantial improvement as a result of a targeted campaign on Phonics and at the end of December the position had been almost completely recovered.
5. Margin on directs and major projects is £1,571k compared to a £1,562k budget and £1,854k in the prior year. The major reason for the adverse variance is the discounting promotion for Phonics in the run up to the scheme ending on 31st October 2013.
6. Rebate income is £2,774k which compared to budget we are £272k favourable for the year to date.

8. Catalogue advertising is £870k compared to the prior year £889k and the budget of £894k.
9. Other Income being mainly bank interest and contributions to MSTAR set up costs from YPO was £159k compared to a budget of £165k and prior year £209k. The costs to ESPO to set up MSTAR was £125k and YPO have agreed to contribute 50% towards the total costs.
10. Overall gross mark up for store sales was 32.3% for the period which is 0.5% up on the prior year and 0.4% up on budget. The reason for the positive variance is higher than budgeted margin on stationary products as a result of a new procurement arrangement with our principle supplier.
11. Total income is £13,636k for the period compared to £12,929k budget and £13,556k in the prior year. As described above the principle reason for the variance to budget is down to rebate income and stores mark up.

Expenditure

12. As identified in the Annual Governance Statement for 2012-13 as follows:

| | | |
|--|------------|----------------|
| <u>Scheme of Delegation</u> | | |
| Improve scheme of delegation down to lower levels of management. | AD Finance | September 2013 |

An improved Scheme of delegation has been implemented. In accordance with Appendix 6 of the Constitution and the Financial Regulations for ESPO the Director has delegated expenditure authority down to the Assistant Director level. The Director has implemented regular budgetary review meetings with each Assistant Director to monitor and review performance against budget.

The reports generated for the end of December to facilitate such reviews are included in the exempt report.

Total Employee Costs

13. Compared to budget overall employee costs, including agency costs, are £7,692k compared to a budget of £7,631k and is thus an adverse variance of £61k. It is important to point out however that the mix between agency and establishment labour was not in line with the budget and that agency labour is currently running substantially ahead of budget. The commitment to achieve the best possible customer service at the busiest delivery time of the year was partly behind the increased agency spend year to date.

Other Expenses

14. Across the organisation Other Expenses are a total of £4,569k against a budget of £4,475k. The principle cause of the adverse variance to budget is transportation. This is related to the current age of the vehicles pending the results of the Transportation Review. Initial indications are that it is not cost effective to outsource the fleet so a programme of vehicle renewal will be implemented in 2014-15 if that is the final decision of the Management Committee when considering the proposed MTFs on 6 March 2014. This will substantially reduce these costs. In the accounts year to date £287k has

been provided for new vehicles. None of this has been spent as yet.

15. There are no other significant variances to report. A full detailed analysis by account code and by Assistant Director is included in the exempt report.

Surplus

16. Overall at £1,374k the surplus is ahead of budget at £823k but challenges will continue for the remainder of the year. A combined summary Profit and Loss Statement is included in Appendix 1.

Balance Sheet

12. A summary balance sheet as at the end of December is included in the exempt report.
13. Compared to the balance sheet as at 31/3/2013 stock has decreased from £4.5m to £3.8m. This is good from a cash perspective but less so from a stock availability perspective. In January 2014 we implemented a system developed in house to improve the stock optimisation process. A full rolling 12 month stock analysis is included in the exempt report
14. Debtors now stand at £0.8m higher compared to the year-end reflecting the increase in volume.
15. The impact on increased stock and debtors has had an inevitable impact on cash and this is £0.5m lower than at the 31st March year end and stands at £8.7m. A trend analysis for cash compared to prior years is included in exempt report.
16. A detailed cash flow is also included in the exempt report.

Recommendations

17. The Subcommittee is asked to consider and comment on the contents of the report and the attached appendix.

Equal Opportunities Implications

None have been identified.

Officers to Contact

Mr J Doherty – Director (Tel: 0116 265 7930)
Mr C Pitt – Finance Director (Tel: 01162944073)

List of Appendices

Appendix 1 Combined Summary P&L

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| COMBINED PRELIMINARY RESULTS | Dec-13 | | Q4 | | Full Year 2013/14 | | |
|-------------------------------------|---------------------|-----------------|-----------------|-----------------|--------------------------|-----------------|-----------------|
| | YEAR TO DATE | | | | | | PRIOR |
| | ACTUAL | BUDGET | FCAST | BUDGET | FCAST | BUDGET | YEAR |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| SALES | | | | | | | |
| STORES | 32,428.0 | 31,625.7 | 10,170.6 | 10,628.3 | 42,598.6 | 42,254.0 | 40,316.1 |
| DIRECT | 16,931.9 | 15,776.0 | 5,356.4 | 5,356.4 | 22,288.3 | 21,132.4 | 23,296.1 |
| GAS | 16,240.2 | 12,439.3 | 13,200.4 | 13,200.4 | 29,440.6 | 25,639.7 | 24,404.2 |
| CATALOGUE ADVERTISING | 870.3 | 894.1 | 2.2 | 2.2 | 872.6 | 896.3 | 918.5 |
| REBATE INCOME | 2,774.4 | 2,502.7 | 1,571.0 | 1,571.0 | 4,345.4 | 4,073.8 | 4,858.0 |
| MISCELLANEOUS INCOME | 158.9 | 165.7 | 37.9 | 37.9 | 196.9 | 203.7 | 278.1 |
| TOTAL SALES | 69,403.8 | 63,403.5 | 30,338.6 | 30,796.3 | 99,742.4 | 94,199.8 | 94,071.0 |
| Cost of Sales | | | | | | | |
| STORES | 24,506.8 | 23,983.7 | 7,718.2 | 8,053.3 | 32,225.0 | 32,037.0 | 30,482.2 |
| DIRECT | 15,360.3 | 14,213.1 | 4,821.0 | 4,821.1 | 20,181.3 | 19,034.2 | 20,790.6 |
| GAS | 15,900.9 | 12,276.1 | 13,027.3 | 13,027.3 | 28,928.2 | 25,303.4 | 24,117.5 |
| CATALOGUE ADVERTISING | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| REBATE INCOME | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| MISCELLANEOUS INCOME | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL COST OF SALES | 55,768.0 | 50,472.9 | 25,566.5 | 25,901.7 | 81,334.5 | 76,374.7 | 75,390.3 |
| Margin | | | | | | | |
| STORES | 7,921.2 | 7,642.0 | 2,452.4 | 2,575.0 | 10,373.6 | 10,217.0 | 9,833.9 |
| DIRECT | 1,571.6 | 1,562.9 | 535.4 | 535.3 | 2,107.0 | 2,098.2 | 2,505.5 |
| GAS | 339.3 | 163.1 | 173.1 | 173.1 | 512.5 | 336.3 | 286.7 |
| CATALOGUE ADVERTISING | 870.3 | 894.1 | 2.2 | 2.2 | 872.6 | 896.3 | 918.5 |
| REBATE INCOME | 2,774.4 | 2,502.7 | 1,571.0 | 1,571.0 | 4,345.4 | 4,073.8 | 4,858.0 |
| MISCELLANEOUS INCOME | 158.9 | 165.7 | 37.9 | 37.9 | 196.9 | 203.7 | 278.1 |
| TOTAL MARGIN | 13,635.8 | 12,929.1 | 4,772.1 | 4,894.1 | 18,407.9 | 17,823.2 | 18,695.3 |
| Margin % | 19.6% | 20.4% | 15.7% | 15.9% | 18.5% | 18.9% | 19.9% |
| EXPENDITURE | | | | | | | |
| EMPLOYEES | | | | | | | |
| Staff | 6,887.9 | 7,385.8 | 2,442.9 | 2,442.9 | 9,330.7 | 9,828.7 | 9,180.5 |
| Agency/Contract | 803.9 | 245.0 | 178.1 | 78.1 | 982.0 | 323.1 | 830.0 |
| Total | 7,691.8 | 7,630.9 | 2,620.9 | 2,520.9 | 10,312.7 | 10,151.8 | 10,010.5 |
| OVERHEAD EXPENSES | | | | | | | |
| Stores | 2,947.3 | 2,753.4 | 980.7 | 930.7 | 3,928.1 | 3,684.1 | 4,016.0 |
| CP | 1,622.1 | 1,722.0 | 447.7 | 447.7 | 2,069.8 | 2,169.8 | 1,984.0 |
| Total | 4,569.4 | 4,475.4 | 1,428.5 | 1,378.5 | 5,997.9 | 5,853.9 | 6,000.0 |
| TOTAL EXPENDITURE | 12,261.2 | 12,106.2 | 4,049.4 | 3,899.4 | 16,310.6 | 16,005.7 | 16,010.5 |
| TRADING SURPLUS | 1,374.6 | 822.8 | 722.7 | 994.7 | 2,097.3 | 1,817.5 | 2,684.7 |

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 17 FEBRUARY 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 an update on the adoption of the Public Service Internal Audit Standards (2013) and how these affect the Finance and Audit Subcommittee's annual work programme.

Background

3. 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.
4. 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

5. Progress against the plan up to the end of January 2014, is shown in **Appendix 1**. The 'opinion' is what level of assurance can be given that material risks are being managed.
6. 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.

7. **Appendix 2** summarises for completed audits the objectives, findings and conclusion/opinion and for audits in progress gives the objective and current position. There are a considerable number of audits in train at different stages of workflow. Discussions are due to be held with the Director of ESPO to manage the impact on operations in the last quarter, whilst balancing the need to provide assurance.
8. **Appendix 3** details HI recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Subcommittee before or where LCCIAS has identified that some movement has occurred in a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.
9. There are not any new HI recommendations to report this quarter. The specific retesting of the implementation of the rebates HI recommendations is imminent.

Update on the adoption of the Public Service Internal Audit Standards (2013) and how these affect the Finance and Audit Subcommittee's annual work programme

10. The Subcommittee was informed at its meeting on 3 June 2013 about the proposed implementation of the Public Service Internal Audit Standards (PSIAS) from April 2013. Whilst these new standards applied from 1st April 2013, advice on how they specifically applied to Local Government was not available until mid-April. The application of the PSIAS and, in particular, proving conformance to them, led to some concerns being raised nationally by Heads of Internal Audit. This resulted in further clarifications being sought and training events being provided.
11. The Head of Internal Audit Service (HoIAS) took the view that it would be prudent to await full advice and to reflect on others' experiences before designing and implementing the PSIAS. Consideration will shortly be given to the terms of an internal audit 'charter' (formally Terms and Objectives) that will define LCCIAS purpose, authority, responsibilities and activity consistent with the requirements of the new standards. The 'charter' will primarily be designed for LCCIAS relationship with Leicestershire County Council but then will be adapted as necessary for its relationship with ESPO and will be presented to the Finance and Audit Subcommittee for approval at a future meeting.

12. The HoIAS has, on an annual basis, presented a report to the Subcommittee on the 'Effectiveness of the System of Internal Audit'. However, the new standards require a Quality Assurance and Improvement Programme to be developed that should facilitate an assessment of the efficiency and effectiveness of all internal audit activity and identify opportunities for improvement.
13. This should enable conformance (or any specific non-conformance) with all aspects of the PSIAS to be evaluated. Should there be any significant deviations (as yet to be defined) from the standards, consideration will be given to the need to disclose them within the ESPO Annual Governance Statement.
14. PSIAS requires that the results and progress against any improvement plans should be reported in the Internal Audit Annual Members' Report, which will be presented to the Subcommittee on Tuesday 10 **June** 2014.

Recommendation

15. That the contents of the report be noted.

Equal Opportunities Implications

16. 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

Officer to Contact

Neil Jones, Head of Internal Audit Service

Tel: 0116 305 7629

Email: neil.jones@leics.gov.uk

Appendices

- | | | |
|------------|---|---|
| Appendix 1 | - | Summary of final internal audit reports issued 1.11.2013 - 31.01.2014 |
| Appendix 2 | - | Summary audit objectives, findings and conclusions |
| Appendix 3 | - | Summary of Internal Audit High Importance Recommendations |

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| <u>Sun-Function</u> | <u>Name</u> | <u>Final Issue</u> | <u>Audit Opinion</u> | <u>HI Recommendation</u> |
|----------------------------|--------------------------------|---------------------------|-----------------------------|---------------------------------|
| Financial Assets | Business Forecasting | Finalising | Substantial | No |
| Governance | Medium Term Financial Strategy | Finalising | Substantial | No |

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Summary audit objectives, findings and conclusions

Audits concluded or in progress at 31st January 2014

Audits where only the objective had previously been reported (November 2013 Subcommittee), which are now concluded

| Audit title | Audit Objective | Findings | Conclusion/Opinion |
|--------------------------------|--|---|---------------------------|
| Medium Term Financial Strategy | There are robust 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 | Substantial assurance |
| Business Forecasting | There is a robust framework for forecasting and acting on triggers | Recommended minor improvements to the trail of decisions in budget working papers and an improvement to the budget timetable. | Substantial assurance |

Audits in progress at the end of January 2014

| Audit title | Audit Objective – to ensure that... | Position |
|--------------------------------|--|--|
| Rebates income | Rebates received conform to estimates of supplier business generated note time includes 3 days for closure of 2012-13 work | Underway |
| Risk Management | The revised policy and framework is operating as intended and lines of defence are understood and complied with. | Almost complete. Draft report being discussed with ESPO Management |
| Servicing Authority | The servicing authority is achieving its requirements and objectives. | Underway. Scope being finalised with the Director |
| E-Tendering | The security requirements and audit trail are robust. | Underway with ad-hoc advice provided. |
| Energy | The requests of customers regarding meter points have been accurately transferred under the new gas portfolio. Additionally, that energy contracts are adequately governed. | Information required has been mostly received Will evaluate the adequacy and effectiveness of the information and how easily assurance can be gained by partners. |
| Attendance management | Procedures adhere to the corporate attendance management policy | Planned to start |
| General ledger reconciliations | Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock | Underway. |

| | | |
|---|---|--|
| Trading performance & distribution of surplus | The trading results provided by ESPO, both for internal use and reported to the Management Committee, are well founded in the general ledger and the distribution of surpluses process is robust. | Underway |
| ESPO Services | The key principles to providing the individual categories within the ESPO service menu are complied with | Scope agreed with Assistant Director but start deferred at ESPO's request due to an operational priority |
| Anti-fraud and corruption | There is a robust framework for ensuring ESPO staff and management act with integrity and there are procedures and processes to enable concerns to be raised and investigated. | Not yet scoped |
| Attendance management | Management applies a robust and consistent approach to attendance management and attendance is reported and monitored by management team | In discussion with management |
| IT General controls | The range of controls expected by the External Auditor are well designed and consistently applied. | Testing now |
| Stock management | The stock management system is effective and accurate so as to facilitate decisions, support financial accounting and mitigate risks (excesses, shortages, wastage and theft) | Scope is with ESPO Assistant Director for approval. |
| Fleet management | Vehicle Operating License requirements are complied with and liability is removed | Testing now |
| Fleet management | The fleet is managed effectively and efficiently (loading, routing, maintenance etc). | Scope is with ESPO Assistant Director for approval. |
| Supply chain | ESPO identifies, evaluates and monitors its supply chains to ensure integrity and sustainability | Scope agreed with Assistant Director but start deferred at ESPO's request due to an operational priority |

Summary of Internal Audit High Importance Recommendations

| Committee | Audit Title | Summary of Finding and Recommendation | Management Response | Action Date | Confirmed Implemented |
|-----------|-------------|--|---------------------|-------------|---|
| Aug 2012 | Rebates | <p>Inconsistent systems were operated to capture relevant data which created inefficiencies in the invoicing and sales ledger processes and a risk that all rebates actually due are not promptly and accurately collected and received.</p> <p>Recommended business processes to be established and subsequently documented to identify which area of the business should carry out various processes.</p> | A | July 12 | <p>Partly – processes have been documented</p> <p>IAS will further f/u compliance against processes</p> |
| Aug 2012 | Rebates | <p>For 'Dealing Direct' items, there is major reliance on the honesty of the supplier to provide accurate information about levels of turnover.</p> <p>There is also a higher risk of non-receipt of rebates, especially in the current economic climate, due to only collecting on an annual basis regardless of the perceived risk of supplier.</p> <p>Recommend: -</p> <ul style="list-style-type: none"> Supporting evidence substantiating rebates paid should form part of new contractual obligations for all suppliers. Current suppliers should be retrospectively requested to comply. Consideration should be given to more regular rebate settlements for selected suppliers based | A | August 12 | <p>Partly – contracts are more robust but changes have not been embedded long enough to confirm compliance</p> <p>Further audit work planned</p> |

Eastern Shires Purchasing Organisation (ESPO)

| | | | | | |
|----------|---------|---|---|------------|--|
| | | on factors such as materiality of business and the degree of financial stability of the supplier. | | | |
| Aug 2012 | Rebates | ESPO staff identified a lack of any rebate budget information being produced during the year. Recommended the development of robust management information and performance indicators in order to provide regular reporting to management team, which would also aid management decision making regarding the benefit or otherwise of each individual contract | A | October 12 | Yes However IAS to f/u whether further development is required |

Key to management response

A=Recommendation agreed; M=modified recommendation agreed; D=Assumed agreed; X=Not agreed

Audit/ESPO/F&ASC/13-14/November/Appendix 3/Hi Progress Report

Last Revised 07/11/2013

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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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