



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: 15 June 2015
My Ref: BH/ESPO
Please ask for: Ben Holihead
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e-mail: ben.holihead@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 Wednesday, 24 June 2015 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) to confirm that you require lunch and, if so, whether you have any special dietary requirements.

Yours faithfully,

Ben Holihead
for Consortium Secretary

AGENDA

Item

Pages

1. Election of Chairperson for the municipal year 2015/16.

Cllr. J. Clarke has been nominated by Warwickshire County Council.

2. Election of Vice-Chairperson for the municipal year 2015/16.

Cllr. I. Monson has been nominated by Norfolk County Council.

3. Minutes of the meeting held on 4 March 2015.

(Pages 5 - 8)

4. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.
5. Declarations of interests in respect of items on the agenda.
6. Items referred by the Finance and Audit Subcommittee.
7. Update on the new Public Contract Regulations. (Pages 9 - 20)
Presentation by ESPO officers.
8. Director's Progress Update. (Pages 21 - 34)
Report of the Director.
9. Building Maintenance and Capital Plan. (Pages 35 - 38)
Report of the Director.
10. Draft Outturn 2014/15. (Pages 39 - 46)
Report of the Consortium Treasurer.
11. Annual Report 2014/15. (Pages 47 - 54)
Report of the Director.
12. Annual Governance Statement 2014/15. (Pages 55 - 70)
Report of the Consortium Treasurer.
13. Annual Review of Organisational Approach to Risk Management. (Pages 71 - 96)
Report of the Director.
14. Internal Audit Service Annual Report. (Pages 97 - 114)
Report of the Consortium Treasurer.
15. Date of Next Meeting.
The next meeting will take place on the 28 September 2015 at ESPO, Grove Park, Enderby.
16. Any other items which the Chairman has decided to take as urgent.

The public are likely to be excluded from the meeting during the consideration of the following items of business in accordance with the provisions of Section 100(A) (4) of the Local Government Act 1972.

17. **Supplementary Information Informing the Director's Progress Update.** (Pages 115 - 120)
- Report of the Director.
- (Exempt under paragraphs 3 and 10 of Section 10(A)).
18. **Supplementary Information Informing the draft Outturn 2014/15.** (Pages 121 - 128)
- Joint report of the Consortium Treasurer and Director.
- (Exempt under paragraphs 3 and 10 of Section 10(A))
19. **Change Programme Update.** (Pages 129 - 138)
- Report of the Director.
- (Exempt under paragraphs 3 and 10 of Section 10(A)).

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Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield, Leicestershire on Wednesday, 4 March 2015.

PRESENT

Mr. J. Clarke CC - Warwickshire (in the Chair)

Dr. R. K. A. Feltham CC - Leicestershire	Mr. J. Holdich CC - Peterborough
Mr. R. Foulkes CC - Lincolnshire	Mr. D. Parsons CC - Warwickshire
Mr. G. A. Hart CC - Leicestershire	Mrs. S. Rawlins CC - Lincolnshire
Mr. R. Hickford CC - Cambridgeshire	

114. Minutes of the meeting held on 4 December 2014.

The minutes of the meeting held on 4 December 2014 were taken as read, confirmed and signed.

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

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

116. 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.

117. Items referred by the Finance and Audit Subcommittee.

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

118. Director's Progress update.

The Management Committee considered a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 4 December 2014. A copy of the report, marked 'Agenda Item 5', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). As had been reported at previous meetings, total sales were behind budget due to lower gas sales. Members were informed that this was primarily due to a mild winter resulting in approximately 14% lower usage and was not as a result of customer loss;
- (ii). Although energy prices were significantly lower the benefits of this would not be immediate due to forward purchasing and that the benefits would be seen in the next contract round;

- (iii). Staff expenditure had increased due to an increased use of agency staff to alleviate the pressure experienced during the summer, and whilst new warehouse processes were being implemented. The Director reported that improvements were being seen as a result of these new warehouse processes which could ultimately reduce costs;
- (iv). The Director advised the Committee that there were no patterns emerging in employee sickness absence, but long-term sickness absences were a contribution to the increased sickness absence rates. The Committee was informed that further training was being provided on managing sickness absences;
- (v). New EU regulations on procurement practices had recently come into force and the Director would report back to a future meeting on how this would affect ESPO.

RESOLVED:-

That the Director's Progress update be noted.

119. Change to the order of business.

RESOLVED:

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

120. 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 items of business 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.

10. Supplementary information informing the Director's Progress Update;

11. Forecast Outturn 2014/15 and draft MTFs 2015/16 – 2018/19;

12. Updated Strategy Report.

121. Supplementary Information informing the Director's Progress update.

The Management Committee considered an exempt report from the Director, which set out supplementary exempt information to his Progress Update (minute 118 refers). A copy of the exempt report, marked 'Agenda Item 10' is filed with these minutes.

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

RESOLVED:

That the contents of the report be noted.

122. Updated Strategy Report.

The Management Committee considered an exempt report from the Director, which set out the revised strategy and to highlight progress made in the last year. A copy of the exempt report, marked 'Agenda Item 12' is filed with these minutes.

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

RESOLVED:

That the contents of the report be noted.

123. Forecast Outturn 2014/15 and draft MTFs 2015/16 - 2018/19.

The Management Committee considered an exempt report from the Director, which updated members on the financial implications of the Four Year Medium Term Financial Strategy, and presented the draft budgets for 2015-16, 2016-17, 2017-18, and 2018-19. A copy of the exempt report, marked 'Agenda Item 11' is filed with these minutes.

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

RESOLVED:-

- a) That the contents of the Forecast Outturn for 2014/15 be noted; and
- b) That approval be given to the four-year medium term financial strategy, and the incorporated budgets for 2015-16, 2016-17, 2017-18, and 2018-19, be approved.

THE MEETING THEN RECONVENED INTO PUBLIC SESSION.

124. Internal Audit Charter.

The Committee considered a report of the Consortium Treasurer outlining the Internal Audit Charter for ESPO and to inform the Committee of the progress against the Quality Assurance and Improvement Programme. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The Committee was informed that the Charter had been presented to the Finance and Audit Subcommittee which recommended it be approved.

RESOLVED:-

The Committee approved the Internal Audit Charter for ESPO.

125. Governance Over Managing the Risk of Fraud.

The Committee considered a report of the Consortium Treasurer containing the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, and the progress made

against the adoption of the Servicing Authority's policies and procedures against fraud and corruption (including the recently revised Employee Code of Conduct). A copy of the report, marked 'Agenda Item 7' is filed with these minutes.

The principles outlined in the Fraud Code had been considered by the Director, Consortium Treasurer and Secretary, and the Finance and Audit Subcommittee, all of whom had recommended that they be adopted.

The Committee was advised that ESPO staff would be advised of the roll out of the new Employee Code of Conduct through an internal communications strategy.

RESOLVED:-

- a) That the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption be adopted and that a statement be included in the next annual governance report outlining ESPO's conformity to these principles; and
- b) That ESPO's progress on adopting the revised Employee Code of Conduct of Leicestershire County Council (the Servicing Authority) be noted.

126. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on Wednesday 24 June at 10.30am at County Hall, Glenfield.

10.30 am - 12.00 pm
04 March 2015

CHAIRMAN



An update on the new Public Contract Regulations 2015

**Kristian Smith
Assistant Director Procurement &
Compliance**

24 June 2015





Agenda

- Scene setting and recap
- The new regulations
 - Why?
- Summary review
- Take away points





Scene setting

- Public Procurement regimes (UNCITRAL, GPA, World Bank & EU Procurement Directives)
 - Aims?
- UK & EU
 - CCT
 - 1991 – 1st regs.
 - 2004 – PCR 2006
 - 2014 – PCR 2015
- Perceptions – expensive, process centred, bureaucratic, increased challenges





The Regulations

- Directive 2014/24 – UK first adopter
- Public Contract Regulations 2015 became live on 26 February 2015 and applies to all procurements commenced after that date
- A process has commenced if any notice is published or any expressions of interest are sought (Reg 117)





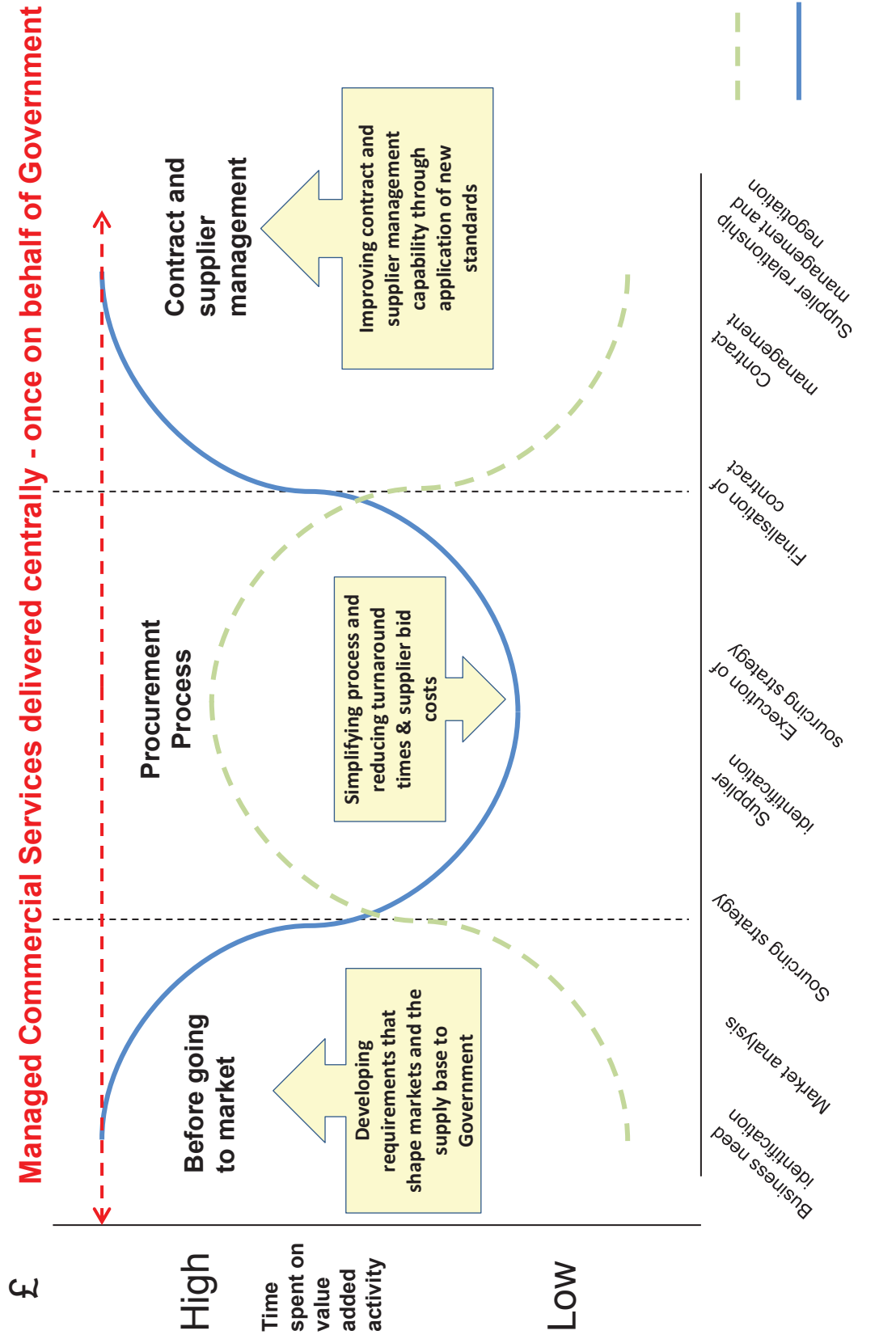
Why?

- ❖ **Why? – Set out in Recital - Directive 2014/24**
 - Increase the efficiency of public spending
 - Facilitate in particular the participation of SMEs in public procurement
 - Enable procurers to make better use of public procurement in support of common societal goals
 - There is also a need to clarify basic notions and concepts to ensure legal certainty and to incorporate certain aspects of related well-established case-law of the Court of Justice of the European Union.





The new DNA for commercial activities: A CCS perspective





Why?

- ❖ **Incorporating domestic procurement rules into legislation**
- See Lord Young reforms
- Chapter 8 Reg 106
 - >10k central government
 - >25k others (LG)
 - advertise on Contracts Finder
 - No PQQs
 - Publish award details





Summary review

- ❖ **Lots hasn't changed!**
 - how to calculate values, principles, thresholds, specifications, standstill, ineffectiveness
 - Remedies directive 2004
 - **very similar skeleton**

- ❖ **Clarifications more than changes?**
 - soft market testing,
 - frameworks, award criteria broadening to include social & environmental benefits
 - MEAT in WLC & removes lowest price
 - Teckal





Summary review

❖ Core changes

- Abolishing Part A & Part B services distinction – light tough regime
- New procedures & timescales generally shortened (innovation partnerships, competitive procedure with negotiation)
- Conflicts of interests
- Exclusion for past contract performance
- DPS updates
- E-Proc. mandated from 2017
- Electronic catalogues accepted
- Division into Lots – justification
- Good governance record – Reg84 report
- Teckal rules explained & clarified
- A single European Procurement document from 2018 to show “preliminary evidence”
- Sub threshold rules for UK e.g. no PQQ & >25k advertised on contracts finder
- Rights changing to obligations e.g. abnormally low tenders
- Documents ready to be available upfront of the Proc. process
- GPA – MFN clause





Summary review

- **Quicker and less administrative**
 - Shorter timescales, documents available at the start of procurement processes, mandated use of technology, updated DPS
- **More SMT aware**
 - Division into lots, a single European Procurement document, sub threshold procurement rules, electronic catalogues are acceptable
- **Modernised to embrace technology**
 - Mandated use of e-procurement by 2017, e-auctions
- **UK agenda?**
 - Exclusion for past contract performance, horizontal procurement policies, use of Teckal companies – more common, pre-market engagement explicitly permissible





Take away points

- UK Government promoting as modernised, less bureaucratic, e-enabled and recognising issues affecting procurement officers in the UK
- ESPO has delivered training on behalf of the Cabinet Office
- All ESPO Proc. Staff & Member Proc. Officers offered training – some 100+ trained
- PCR procedure updated
- No risk profile change – although as “new” the law will evolve and inherent uncertainty
- Early days...only 1 case law





Thank You

Any Questions?





ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Briefing Note

1. The purpose of this update is to inform members of the actions and progress made since the last ESPO Management Committee meeting held on 4 March 2015.

Overall Financial Performance

2. Overall financial performance can be summarised as:
 - Overall surplus came in at £2.2m in line with budget and at the upper end of the forecast range indicated to Members in December 2014.
 - Sales to March were at £92.9m as set out in the table in paragraph 3;
 - Compared to the prior year gas sales were lower by £2.8m, down to lower kwh usage linked to the milder weather. The actual number of customers/MPR has shown a small increase to over 6000.
 - ESPO enjoyed its 14th successive year of record Stores sales finishing at £43.4m, £1.1m ahead 2013/14;
 - Rebate income closed at £5.99m which is a strong performance compared to prior year and budget. This is down to increased customer engagement, framework usage and improved internal processes between finance and procurement.

3. Key figures underlying the total sales to 31 March 2015 are as follows:

<u>SALES</u>	<u>YEAR TO DATE</u>		
	ACTUAL £m	BUDGET £m	PRIOR YEAR £m
STORES	43.40	44.14	42.33
DIRECT	20.51	19.52	21.63
GAS	22.71	30.58	25.47
CATALOGUE ADVERTISING	0.80	0.94	0.93
REBATE INCOME	5.99	4.34	5.05
MISCELLANEOUS INCOME	0.17	0.20	0.13
<u>TOTAL SALES</u>	<u>93.58</u>	<u>99.72</u>	<u>95.54</u>

4. The balanced scorecard for 2014/15 and the proposed balanced score card for 2015/16 are included in Appendix 1.

External Activities and Developments

Election impact

5. The expectation of further pressure on Local Government funding will continue. ESPO's recently agreed strategy which increases the requirement to achieve increased financial return to members remains appropriate.
6. Whilst Education did not seem to feature as an election theme; in real terms, the expectation is that Education budgets will be further pressed and hence ESPO's pricing strategy, and clear focus on improving service also remains valid.

PBO development

7. The intent to develop a PBO procurement forum (reaching wider than the functional boundaries and geography previously associated with Pro5) to share insights, to develop and share best practice, to respond to procurement challenges posed centrally, and to continue to bring appropriate collaboration to the sector was initiated at an event hosted jointly by ESPO and Yorkshire Purchasing Organisation (YPO) on 30 March 2015.
8. This was attended by ESPO, YPO, North East Procurement Organisation, Central Buying Consortium, National Advisory Group, Crown Commercial Services, and the National Procurement Service Wales.
9. The group agreed:
- To hold an annual meeting to break down barriers from Local Government to wider parts of the public sector, to drive value for common goods and services;

- To prioritise activity around the Select Committee findings on PBO involvement in Local Government procurement;
- To create a group to help decipher and translate procurement policy on behalf of Local Government, that shares know-how and experiences (akin to a trade association).

Recognition and awards

10. At the Education Resources Awards 2015 held 20 March 2015, ESPO was awarded Marketing Campaign of the Year Award for the work done on Universal Infant Free School Meals campaign. The judges, an independent panel of experienced educational professionals, most of whom are classroom teachers, said:

“The return on investment for this free school meals marketing campaign was exceptionally high. ESPO’s professional campaign used a variety of channels to provide essential information to schools at a time when they need key support and advice on implementing the new government policy”.

Our campaign delivered information, catalogue and framework solutions to our customers, successfully generating brand awareness, sales margin and rebate for ESPO.

11. The Society of Procurement Officers in Local Government (SOPO) held its annual conference on 20 April 2015. ESPO was proud to be presented with finalist awards in four categories, winning the Best Supplier Engagement Category for the Banking Services framework. Finalist awards were collected by team members for Best Collaboration Project, Team of the Year (ESPO’s food team) and Outstanding Savings Project. In addition to this, Steve Burton, Procurement & Development Lead, People & Communities, attended the event to collect his finalist award for Lifetime Achievement Award.
12. The awards ceremony followed a conference and exhibition which gave our Corporate Accounts team the opportunity to develop links with procurement teams from local authorities across the UK.

ESPO Internal Developments

Servicing Authority Service Level Agreement

13. I have agreed a Service Level Agreement with the Servicing Authority to set out the range, cost and depth of service being provided as detailed in the consortium agreement. As Director, it is important to ensure that ESPO receives the agreed services which is the case. These services are shown in the table below:

	Budget 2014/15	Invoiced 2014/15	Budget 2015/16
Corporate financial services	£13k	£13k	£13k
EMSS HR Admin and Payroll Services	£42k	£42k	£42k
Strategic HR Services	£103k	£85k	£95k
Internal Audit	£56k	£56k	£52k
Legal	£65k	£65k	£65k
Insurance	£7k	£7k	£7k
Committee Services	£18k	£18k	£18k
Learning & Development	Based on usage	Based on usage	Based on usage
Total	£304k (plus L&D)	£286k (plus L&D)	£292k (plus L&D)

14. Following a series of meetings with Leicestershire County Council's Assistant Director – Corporate Services & Transformation, we have reviewed the provision of an appropriate level of HR support at ESPO.

This has resulted in a reduced cost for HR service from the Servicing Authority, supported in house at ESPO by an administrative support officer to complement this team.

Senior Officer Group

15. The Senior Officer Group requested social care market intelligence reports, of which the following have been provided: Care of the Older People, Care Home Pay Survey and the Fair Price For Care Toolkit. These have been progressed.

Building Refurbishment

16. Details of the recent building survey and proposed building refurbishment are outlined in a report elsewhere on the agenda.

ESPO Operational Progress

Procurement Progress

Day rates

17. ESPO provides additional services for consulting and major projects services provided 'at a lower cost than may be charged by an employment agency or professional services firm' with 'differential pricing that will benefit Member Authorities (and Customers)'. This is set out as a required service within Schedule 2, section B of the Consortium Agreement.

18. The current charge out rates for such resource is £460 for members and £520 for non-members. This rate was set a number of years ago and had been overdue for a review which has now taken place.
19. As a result of this review, ESPO's Assistant Director for Finance & IT has calculated a blended day rate of £427 for members and this is being brought to members for approval. The Assistant Director for Procurement & Compliance will now review the non-member rates.

New Procurement Regulations

20. The PCR 2015 went live 26 February 2015, by which time ESPO had completed training for its staff and its members in addition to supporting broader cabinet office training initiative in region. The Assistant Director for Procurement will present these changes and its implications to the Management Committee today.

Procurement & Compliance Restructure

21. The restructure of ESPO's procurement division has been completed. This allows for the separation of commercial activity such as traded procurement, analytics, benefits measurement and income from procurement activity in which the model of 'good procurement' remains with high standards and service, utilising the regulations as an enabler rather than a constraint.

Sales & Marketing

Campaigns, activities and newsletters

22. In March, ESPO exhibited at the Education Show at the NEC in Birmingham. The stand reflected the new ESPO catalogue message and colours. The show provided plenty of opportunities to engage with new and existing suppliers and school customers. It provided customer leads for follow up over the coming weeks.
23. As part of our strategic relationship, ESPO attended the annual Youth Sport Trust conference in Shropshire. The programme included targeted sessions for primary schools on how maximise the new sport funding for the benefit of all pupils. The event was attended by leading schools, Government officials, Ofsted, Head Teachers and Olympic and Paralympic athletes.
24. We have agreed an exclusive partnership with the Chartered Institute of Procurement & Supply (CIPS), becoming its Public Sector Procurement Partner. This allows information about ESPO frameworks, procurement solutions, case studies, events and updates being featured on their website and distributed across its various marketing channels to its 17,000 members. This also opens future opportunities to run events and surveys with its membership. This partnership specifically targets procurement professionals across the public sector and complements other ESPO partnerships across the Education sector.

2015 ESPO catalogue

25. The ESPO 2015/16 catalogue launched in time for April. In addition to a new catalogue design with improved page layouts and categories easier to navigate, there is a refreshed product range featuring 4,000 new lines and a broader range of our SmartBuy products. New bundle packs have been introduced and single line items have been minimised or removed. Prices have been held on bestselling lines, with small percentage increases across our wider range. The pricing strategy supports delivery of our MTFs and remaining a market leader on price against competitors.

Customer service

26. As part of our strategy to improve Customer Engagement, the online Feefo customer review programme has gone live. This allows customers to rate and comment on ESPO's service delivery, product quality and prices, allowing us to track and benchmark our service performance and create a dialogue with our customers. To date, 246 customer reviews rate ESPO's level of service at 96% satisfaction. Customer comments made include "Easy to order, fast delivery always someone on the end of the phone to answer any queries", "All round excellent service", "Very pleased with price, quality and delivery". This feedback will link into the CRM system across Customer Services capturing key feedback, documenting calls and tracking call types.

ESPO Risk and Governance Update

Audit Reports

27. There has been one audit report issued in the quarter regarding ESPO's risk management. The recommendations have been accepted and are in the process of being implemented.

Receipt of Gifts and Hospitality and Declaration of Personal Interests

28. With the roll out of the updated Leicestershire County Council Code of Conduct, we have reviewed our handling of Gifts and Hospitality and Declarations of Personal Interests.
29. Being a procurement organisation, we are acutely aware of our susceptibility in regards to gifts and hospitality. Our first measure is to return gifts and to advise suppliers not to give any further gifts. Where it would incur costs to return an item, we put it aside for our Diwali and Christmas raffles. This year raffle contributions came to just over £600 and were distributed among Cancer Research, Dove Cottage Day Hospice, Friends of Chernobyl, and Guide Dogs for the Blind. A twice yearly review of the register is in place and I am satisfied that all transactions are dealt with appropriately.
30. Traditionally, our senior management team has reported its Declarations of Personal Interests through the Annual Governance Statement. In order to align with Leicestershire County Council, from this year we will solicit this information from all staff members as part of our annual PDR process.

Resources Implications

31. None arising directly from this report.

Recommendation

32. Members are asked to note the contents of the report and to agree the procurement blended day rate as outlined at paragraph 19.

Officer to Contact

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

Appendices

Appendix 1 Balanced Scorecard

Balanced Scorecard – Quarter 4 (at March 2015)

Warehouse	latest figure	target	
Orders in Full	93.62%	98.00%	●
Order Lines On Time	98.73%	98.00%	●
Stock Availability	98.81%	98.00%	●

Finance	latest figure	target	
Growth in stores turnover	2.5%	4.2%	●
Employee costs as % sales (stores)	11.7%	10.5%	●
Year to Date Surplus £m	2.2	2.2	●

Sales and Marketing	latest figure	target	
New customers	1261	1000	●
Rebates v Budget £k	5,994	4,338	●
Stores Catalogue Margin % Oncost	34.4%	32.6%	●
Supplier Funding £k	800	940	●
Directs Sales v Budget YTD £k	20,508	19,519	●
Store Sales v Budget YTD £k	43,403	44,140	●

A= All S= Stores D= Directs E=Energy & Fuels
 F= Frameworks C= Consultancy M= Major Projects

Procurement and Commissioning	latest figure	target	
Customer Feedback Forms	3.28	2.4	●
% of challenges against percentage of completed procurements	0%	10%	●
E-tendering usage versus paper tendering usage as a percentage	100%	30%	●
% of ESPD national procurements renewed on time	98.8%	90%	●

Efficiency	latest figure	target	
Proportion of			
E-orders	18.0%	20.0%	●
E-invoices	13.0%	10.0%	●
Value of Web Orders £m	6.37	5.50	●

Audit and Risk	latest figure	target	
Rebate Audits completed	1	1	●
Residual Risk Reporting : Risk Score > 10	Director SMT	4 3	
Hi Recommendations Outstanding	1	0	●

Workforce	latest figure	target	
Sickness absence rates (days per FTE)	12.07	7.5	●
Staff Turnover	4.8%	10%	



Balanced Scorecard – Proposed Model for 2015/16

Summarised Balanced Scorecard May 15					
Financial					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Total Sales (inc Gas & Rebates)	£5,968,554	£6,278,077	↓ -4.9%	£14,003,285	↑ 11.2%
Total Gross Margin	£1,118,075	£1,250,492	↓ -10.6%	£2,659,487	↓ -6.1%
Total Expenditure	£1,381,500	£1,371,691	↑ 0.7%	£2,895,726	↓ -4.9%
Surplus	-£263,426	-£121,199	↓ -117.3%	-£236,239	↓ -10.7%
Net Profit Margin %	-4.41%	-1.93%	↓ -2.48pp	-1.69%	↑ 0.01pp
Rolling 12 months...					
Net Profit Margin %	2.32%	1.37%	↑ 0.95pp		
Asset Turnover	4.5	5.0	↓ -0.5		
ROCE	10.37%	6.82%	↑ 3.55pp		
Full year up to Apr 15 data....					
	No. FTE at Apr 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate	303	3,678	12.2	8.5	↓ -3.7
Highlights					
Finance & IT					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	12%	20%	↓ -8.49pp	12%	↓ -8.19pp
Proportion of E Invoices					
Web Sales	544,212	394,654	↑ 37.9%	1,059,376	↑ 44.8%
Sales & Marketing					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
New Customers					
FeeFo Feedback					
Rebate Revenue					
Operations					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Processing & Transport Cost per Order	£22.76	£16.78	↓ -35.6%	£22.11	0
Agency Cost	£103,252	£64,143	↓ -61.0%	£132,087	↓ -12.4%
No. of staff forum meetings					

Note: LY May had 5 weeks whereas TY there are 4

Operations Balanced Scorecard May 15

Financial					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales					
Margin £					
Margin %					
Orders					
ADV					
Stock Turnover (weeks)					
Operational					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines Picked					
No. of drops					
Warehouse Processing Cost per Order (inc Select, Goods In and Goods Out)					
Transport Cost per Order (inc Payroll, Fuel & Maintenance)					
Processing & Transport Cost per Order					
Wages & Salaries					
Agency Cost					
Productive Hours worked					
Lines picked per hour					
Error rate					
Returns Rate					
Customer					
Physical Stock £	Allocated Stock £	Avail Stock £	% Avail		
Employees					
No. of staff forum meetings	Every 6 Weeks				
Accidents/Near Misses	Number of accidents				
Full year up to Apr 15 data....					
	No. FTE at Apr 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate					

Note: LY May had 5 weeks whereas TY there are 4

Finance & IT Balanced Scorecard May 15

Financial					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock & Direct Sales					
Margin £					
Margin %					
Orders					
AOV					
Stock Turnover (weeks)					
Debtor Days					
Creditor Days					
Finance & IT Costs					
Efficiency					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders					
Proportion of E Invoices					
Web Sales					
System Availability					
Employees					
Full year up to Apr 15 data....					
	No. FTE at Apr 15 month end...	Cum FTE days lost	Cum days lost per FTE	LY days lost per FTE	Var to LY days lost per FTE
Sickness Rate					
Note: LY May had 5 weeks whereas TY there are 4					

Sales & Marketing Balanced Scorecard May 15

Catalogue Metrics					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stock Sales					
Stock Margin £					
Stock Margin %					
Direct Sales					
Direct Margin					
Direct Margin %					
New Customers					
Supplier Funding £					
Customer Service					
Customer Service					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Customer Complaints					
Calls Abandoned					
FeeFo Feedback					
Framework					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Rebate Revenue					
Customer Engagement					
Comms Newsletters					
Focus Groups Held					

Note: LY May had 5 weeks whereas TY there are 4

Procurement Scorecard May 15

Procurement Challenges					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Frameworks					
	Actual	Budget /LY	Var	YTD Actual	YTD Var
% Renewed on time					
Fee Income					
Customer Satisfaction					
	Actual	Budget /LY	Var	YTD Actual	YTD Var

Note: LY May had 5 weeks whereas TY there are 4

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ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

BUILDING MAINTENANCE AND CAPITAL PLAN

REPORT OF THE DIRECTOR

Purpose of Report

1. To present the summary, conclusions and recommendations of the recent Leicestershire County Council ESPO building survey commissioned by the Director as part of the overall maintenance and refurbishment programme to invest in the fabric of the ESPO warehouse and office complex at Grove Park.

Background

2. ESPO is now in its ninth year at the Grove Park purpose-built warehouse and office distribution centre. Distribution centres are built throughout the UK to exacting standards but typically all of these require investment in ongoing property maintenance and a refurbishment programme to maintain investment in the asset and provide minimum operating standards for staff, equipment and allow ESPO to operate efficiently with the assets it has.

Survey Informing Property and Building Refurbishment

3. The building survey has highlighted a number of areas to focus attention on, including repairs to the building, and general upgrade and redecoration which include some Health and Safety work.
4. As part of our Business Continuity planning, it also recommended that improvements are made to the IT server room, incorporating redesign of the layout and cooling system to protect the integrity of the critical engine room of our IT infrastructure.
5. There are further areas of work which require attention (dust extraction and cooling system for the warehouse, and a review of the office air conditioning solution), not specifically highlighted by this survey but which will form part of a proposed three-year investment and maintenance plan for Grove Park.
6. There are some recommendations in the survey which have been pushed back to 2016/17 and some into 2017/18. Internal painting and carpeting has been pulled forward given the overall poor

condition of the building and to consolidate the work in order to obtain the best price and to minimise disruption.

The 2015/16 Maintenance and Refurbishment work can be summarised as follows:

Item	Cost £k
Condition and decoration	155
Improvements including Health & Safety works	41
Projects	23
Roof repair	58
Total	277

7. This will form part of a three-year 'building maintenance and capital plan' with key items subject to review, challenges and a financial proposal. The nature of items being considered include:
- Carpeting, internal and external decoration painting, as identified by the building survey
 - Voltage optimisation and RCD replacement, environmentally efficient improvements with long-term cost savings
 - Upgrade of the flammable store and emergency lighting improvements, Health & Safety measures
8. A further key issue to resolve is the recommendation to repair the roof which may cost circa £58k. This might have been covered by the guarantee on the roof construction but the firm is no longer trading. While we are looking into resolving this issue, we have factored this cost of £58k in this report.
9. The building has a carrying value of £10m (to be revalued for the 2014/15 accounts), and over the last two years, we have built up a reserve of £0.8m to invest in the fabric of the building and to allow for any necessary repairs and renewals. Management Committee approved reserves of £400K in the 2013/14 Financial Year and £400K in the 2014/15 Financial Year. Whilst the building reserve has been created, the permission to invest from that reserve needs to be granted by the Management Committee.

Resources Implications

10. The estimated cost of works to be carried out in 2015/16 is £277k.
11. We will utilise existing staff resources post peak trading (after July). The immediate period will be used to engage procurement staff to ensure we comply with appropriate procurement contract regulations and seek value for money.

Conclusion

12. To maintain the building and property to Leicestershire County Council's standards and to make some changes and improvements to essential operating requirements, ESPO requires a three to five year investment in a 'building maintenance and capital plan'.

Recommendation

13. Members are asked to note the conclusion above and approve expenditure for 2015/16. Further reports will be brought forward to the Management Committee for consideration to commit expenditure from the Building Reserves for years 2016/17 and 2017/18 as appropriate.

Equalities and Human Rights Implications

14. Planned maintenance of the building will improve the working environment for all staff and users of the Grove Park distribution centre.

Risk Assessment

15. This project will be part of the overall Change Programme and will be subject to the same Health Check, including Risk Assessment protocols, as other change projects already underway.

Officer to Contact

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Appendices

None

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ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

DRAFT OUTTURN 2014/15

REPORT OF THE CONSORTIUM TREASURER

Introduction

1. This report sets out the draft outturn for 2014/15 with explanations for the more significant variances to prior year, budget and forecast. Members should note that the outturn will be subject to external audit. A summary profit and loss statement (P&L) is presented below:

	Mar-15			
	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
TOTAL SALES	93,588.5	99,720.0	95,605.3	94,019.2
TOTAL MARGIN	20,196.8	18,693.9	19,329.4	18,643.4
Margin %	21.6%	18.7%	20.2%	19.8%
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6
TRADING SURPLUS	2,221.1	2,171.5	2,382.8	2,683.8

Trading Summary**Income****Mar-15**

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>SALES</u>				
STORES	43,403.1	44,140.7	42,333.8	40,316.1
DIRECT	20,508.5	19,519.1	21,625.5	23,296.1
GAS	22,710.8	30,582.0	25,472.5	24,404.2
CATALOGUE ADVERTISING	799.7	940.2	930.5	918.5
REBATE INCOME	5,994.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	200.0	193.2	226.3
TOTAL SALES	93,588.5	99,720.0	95,605.3	94,019.2

2. Overall the organisation's invoiced turnover for the year including rebates was £93.6m. This was 2.0% (£2m) lower than the prior year which was primarily due to lower gas sales and directs, offset by higher rebates.
3. Stores' sales value has increased this year, compared to the prior year, by £1.1m (3%) to £43.4m. This increase is all volume related as price increases for 2014-15 were minimal. Sales to member authorities including academies have increased by 2%, while sales to other authorities have increased by 8%.
4. The growth in store sales was thus principally achieved in non-member areas.
5. As a result of the Department of Education Phonics initiative coming to an end in October 2013 the Directs catalogue products business decreased to £20.5m from £21.6m the prior year, a fall of 5.3%. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.
6. Rebate income was £5.9m an increase of £0.9m on prior year. The reasons for the increase are as follows:
 - Increased usage of framework contracts
 - A number of one off rebates linked to specific procurement activities
 - A change in process such that the collection of rebates is now a joint effort between finance and procurement.

This has been achieved while continuing to reduce rebate margin from our suppliers.

7. Catalogue advertising was £0.8m and was consistent with forecast. The variance to budget is due to some cross over with rebate income at the time the invoices were raised.
8. Compared to last year overall sales are £2.1m lower driven by lower gas sales offset by higher rebates.
9. Compared to forecast overall sales are £0.6m lower driven by lower gas sales and slightly lower store sales.

Margin

10. Stores margin (mark up) decreased to 31.9% compared to 32.2% in the budget. The budget reflected the pricing strategy of low prices the variance was down to slightly higher pallet and packaging costs.
11. Directs margin (mark up) was 13.3% compares to 12.1% in the budget. This was driven by improved supplier performance (less credits and restocking charges) and improved mix.
12. Total margin was £20.2m compared to a prior year of £19.3m, mainly as a result of higher rebates but also improved directs sales margin.
13. Compared to forecast total margin was £0.5m higher driven once again by higher rebates and improved directs margin.

Expenditure

Mar-15

	ACTUAL 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012-13 £000
<u>EXPENDITURE</u>				
EMPLOYEES				
Staff	9,847.5	9,551.7	9,304.2	9,560.5
Agency/Contract	1,467.1	901.8	1,085.3	830.0
Total	11,314.6	10,453.5	10,389.5	10,390.4
OVERHEAD EXPENSES				
Stores	4,157.3	3,960.6	4,095.4	3,837.5
CP	2,503.9	2,108.2	2,461.6	1,731.7
Total	6,661.2	6,068.8	6,557.0	5,569.2
TOTAL EXPENDITURE	17,975.7	16,522.3	16,946.6	15,959.6

14. Total expenditure increased by £1.0m compared to last year. The key elements of this are as follows:
- Transport costs increased by £0.2m. This is mainly as a result of the aged fleet but also down to increased carrier costs. The issue of “to follow” orders also had an impact as stock levels fell over the summer months and stock availability suffered as a result.
 - Higher agency costs of £0.4m as a result of the difficulties encountered over the summer peak.
 - Higher staff costs due to the impact the full year impact of new starters and new marketing and communications staff.
 - Bad debt provision reduced by £0.08m to £0.04m as a result of lower debtor days and improved cash collections. The provision has been prepared on a consistent basis to prior years and is considered sufficient to cover known risks.
15. Compared to forecast total expenditure was £0.3m higher. The key elements of this are as follows:
- Higher agency costs in Q4
 - Higher transport costs linked to the aged fleet.
 - Increased car lease balloon payments.
16. Total expenditure as a percentage of sales excluding gas rose to 25.2% compared to the prior year 24.2%.

Summary

17. The Net Surplus for the year was £2.2m which is in line with budget and £0.2m higher than forecast. Whilst £0.2m lower than last year this is as a result of increased expenditure offset by higher rebates and improved direct margins.
18. Arising from the 2014-15 out-turn the key impact on next year’s budget would be the higher than forecast overheads at £17.9m. The budget for 2015-16 is £17.9m. In May the Leadership Team met to evaluate opportunities and risks so that particular courses of action have been identified to ensure overheads and surplus remains on track to be delivered for 2015-16.
19. Further information which informs the Draft Outturn 2014/15, of a commercially sensitive nature, is contained elsewhere on the agenda for this meeting, this includes:
- a) Analysis of underlying profitability compared to MTFS
 - b) Detailed breakdown of the overhead expenditure
 - c) Analysis by Service Lines
 - d) Detailed Balance Sheet
 - e) Staffing Analysis

Service Line Analysis

20. The operating surplus before central allocations for Stores was £2.4m against a budget of £2.9m due to principally higher agency costs

21. Framework Contracts achieved an operating surplus of £2.9m against a budget of £2.5m. This was driven entirely by higher rebates achieved at year end.
22. Energy and Fuels operating surplus was £0.9m against a budget of £0.8m.
23. The detailed Service Line Analysis is included in the exempt part of the report elsewhere on the agenda.

Allocations from Operating Surplus

24. A continued further allocation of £0.4m is proposed to be used for the Building Maintenance and Capital Provision. The provision is necessary to ensure the building is maintained at an acceptable standard with funds allocated and available to meet general repairs and capital replacements/ improvements. This is consistent with the prior year and the MTFS.
25. It is proposed to deliver a return to members in excess of the forecast in March 2015. The forecast was for a surplus of £2.0m less the £0.4m for the building provision. This would leave a £1.6m forecast surplus of which members receive 80% or £1.3m. The actual dividend to Members will be £1.4m

Distribution of Surplus:

26. The breakdown of the distribution of the surplus is thus as follows:

£m	<u>2015</u>	<u>2014</u>
Operating Surplus	2.2	2.4
Building Provision	0.4	0.4
Warehouse automation	0.0	0.1
Net Surplus	1.8	1.9
General Fund	0.4	0.4
Dividend	1.4	1.5

27. The amount available for distribution after the above allocations to reserves is £1.80m of which 80% (£1.4million) is attributable to member authorities as a dividend. Year on year the member dividend has thus been reduced by £0.1 compared to the prior year.

ESPO Balances

28. The General Fund balance is primarily to meet any adverse trading conditions, provide funding for stock balances and other expenditure prior to the receipt of income. Established practice is that 20% of operating surplus is added to this fund up to a maximum of 5% of turnover. For 2014/15 £0.4m has been added to the General Fund balance representing 20% of surplus. The level of General Fund balance is expected to increase annually until the agreed maximum is retained according to the approved funding formula, this is not expected to be reached during the period of the current MTFS.

A breakdown of reserves as at 31st March 2015 is as follows:

Analysis of Reserves 31/3/2015 £k

Analysis of Cash Reserves	<u>6084</u>
Strategic Review Implementation	<u>400</u>
Property Replacement	<u>1200</u>
Total Renewals Funds Reserve	<u>3756</u>

Earmarked Projects

Legal Reserve	235
Warehouse Automation	100
Balance on Indigo and other projects over time	393
Total Earmarked Projects	<u>728</u>

Recommendation

29. Members are asked to:

- (a) approve the draft out turn for 2014/15;
- (b) allocations from the operating surplus for 2014/15 as outlined in paragraphs 23 and 24 of this report;
- (c) payment of the dividend, subject to approval of the accounts in September 2015, as outlined in paragraphs 25 and 26 of this report;

Officer to Contact

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List of Appendices

Appendix 1 – ESPO Management Accounts for Year End 31 March 2015

Mar-15

	ACTUAL 2014-15 £000	Full Year Forecast 2014-15 £000	BUDGET 2014-15 £000	PRIOR YEAR 2013-14 £000	PRIOR YEAR 2012- 13 £000
SALES					
STORES	43,403.1	43,505.7	44,140.7	42,333.8	40,316.1
DIRECT	20,508.5	19,703.0	19,519.1	21,625.5	23,296.1
GAS	22,710.8	24,945.0	30,582.0	25,472.5	24,404.2
CATALOGUE ADVERTISING	799.7	801.1	940.2	930.5	918.5
REBATE INCOME	5,994.3	5,041.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	146.7	200.0	193.2	226.3
TOTAL SALES	93,588.5	94,142.8	99,720.0	95,605.3	94,019.2
excluding gas	70,877.7	69,197.8	69,138.0	70,132.8	69,615.0
Cost of Sales					
STORES	32,902.9	32,670.8	33,391.6	31,680.1	30,467.7
DIRECT	18,101.7	17,418.0	17,410.0	19,526.2	20,790.6
GAS	22,387.0	24,655.0	30,224.5	25,125.0	24,117.5
CATALOGUE ADVERTISING	0.0	0.0	0.0	0.0	0.0
REBATE INCOME	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS INCOME	0.0	0.0	0.0	0.0	0.0
TOTAL COST OF SALES	73,391.7	74,743.8	81,026.1	76,331.4	75,390.3
Margin					
STORES	10,500.2	11,027.7	10,749.1	10,653.7	9,848.4
DIRECT	2,406.7	2,285.0	2,109.1	2,099.3	2,505.5
GAS	323.8	290.0	357.5	347.5	286.7
CATALOGUE ADVERTISING	799.7	801.1	940.2	930.5	918.5
REBATE INCOME	5,994.3	5,041.3	4,338.0	5,049.7	4,858.0
MISCELLANEOUS INCOME	172.2	196.7	200.0	248.7	226.3
TOTAL MARGIN	20,196.8	19,641.9	18,693.9	19,329.4	18,643.4
EXPENDITURE					
EMPLOYEES					
Staff	9,847.5	9,850.1	9,551.7	9,304.2	9,560.5
Agency/Contract	1,467.1	1,363.4	901.8	1,085.3	830.0
Total	11,314.6	11,213.5	10,453.5	10,389.5	10,390.4
OVERHEAD EXPENSES					
Stores	4,157.3	4,163.3	3,960.6	4,095.4	3,837.5
CP	2,503.9	2,244.1	2,108.2	2,461.6	1,731.7
Total	6,661.2	6,407.3	6,068.8	6,557.0	5,569.2
TOTAL EXPENDITURE	17,975.7	17,620.8	16,522.3	16,946.6	15,959.6
TRADING SURPLUS	2,221.1	2,021.0	2,171.5	2,382.8	2,683.8
excl gas					
EMPLOYEES NUMBERS (Full-time equivalents):					
Stores	168		181	163	170
Purchasing	89		106	97	88
Indirects	84		80	81	83
TOTAL EMPLOYEES	342		367	341	340
Income per Employee (FTE)	£ 60,894.0		50,929.0	56,723.0	54,767.0
Average Cost per Employee	28,832.0		26,022.0	27,333.0	28,085.0

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ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

DIRECTOR'S ANNUAL REPORT 2014-15

REPORT OF THE DIRECTOR

Purpose of Report

1. To present to members the draft Director's Annual Report for 2014-15.

Background

2. The Annual Report has been prepared in the same format as the prior year and reflects a focus on mission statement, values, governance and staffing issues as well as a summary of financial results.

Annual Report Contents

3. The report focuses first on what ESPO's mission statement is followed by a vision of the organisation in the future. It sets out in clear terms to the reader the journey that ESPO is engaged on for all stakeholders of the organisation.
4. The next section covers financial reporting and a summary of the trading results. This includes some historical performance data so readers can identify some important trends.
5. Following this, the report covers the key marketing activity that has been engaged in over the previous twelve months. This indicates to the reader the brand development activities that have been engaged in as well as specific targeted marketing.
6. The next section covers significant matters which should be brought to the attention of the reader. This includes the revaluation of the land and buildings. An update on the four-year medium term financial strategy is also included setting out the strategic objectives of the organisation.
7. Finally, the last section covers our long service employees and retirees. This recognises the vital contribution of ESPO's staff.

Resources Implications

8. None

Recommendation

9. Members are asked to note the contents of the Annual Report for 2014-15.

Equalities and Human Rights Implications

10. None

Background Papers

11. None

Officer to Contact

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Appendices

Appendix A - Draft Annual Report

ANNUAL REPORT

INTRODUCTION

ESPO is a local authority purchasing consortium. Our purpose and objectives are to provide our Member Authorities and other client bodies with a comprehensive, cost effective contracting and procurement service, covering a diverse range of commodities, products and services, as well as offering a complete and professional procurement consultancy, and assisting clients with complex procurement projects.

The Mission Statement is set out as:

“To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector through comprehensive procurement solutions”

ESPO’s objective is to deliver value for money services to its members and broader customers. In doing this we ensure that our Member Authorities achieve a reward commensurate with the risk they share as ultimate funders of ESPO.

Value for money services are achieved by ensuring a competitive offering is delivered through collaboration and also by recognising that in some instances others can do it better. To ensure ESPO remains competitive, we continue to focus on improved efficiencies, focusing on the customer by ensuring an appropriate service offering, listening and delivering what they need, and by understanding, managing and working with our supply chains.

Both risk and performance management are an integral part of day to day operational performance. Risk management is monitored and reviewed through a compliance process and a risk strategy that is managed and escalated through the senior management team to the ESPO committee. ESPO targets an annual minimum 3.5% return on capital.

Critical to the success of the organisation is the focus on retaining our loyal staff and continuously developing their capabilities as well as recruiting talent to drive further innovation.

OUR VISION

ESPO operates across the public sector in the UK, providing a comprehensive and cost effective procurement service for local authorities, schools and academies, voluntary and community organisations and charities. We understand the need to embrace fully the needs of our Member Authorities and our customers and to ensure that we offer a suite of procurement solutions and a range of consumables, which address a significant proportion of their procurement needs.

Our Vision is:

“To be the first choice provider of Public Sector procurement solutions”

We will achieve this by applying a mix of commercialism, market insight, category expertise, and best practice sourcing to our solutions. ESPO will work individually and together with Member Authorities, its customers, and other partners, to engage markets and thereby achieve optimum outcomes for the benefit of its customers.

ESPO will proactively challenge current practice, recognise the opportunity for collaboration, bringing leadership and innovation to our procurement solutions. We are committed to a programme of continual efficiency improvements in our own operations as we seek to drive further value and be the purchasing agent of choice in the local government/public sector space.

ACCOUNTABILITY AND FINANCIAL REPORTING

Local Authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the organisation is required to produce a set of accounts in order to inform stakeholders that it has properly accounted for all public money it has received and spent and that its financial standing is on a secure footing.

FINANCIAL STATEMENTS

The financial activity of the Organisation in relation to the service it provides is shown through a number of key financial statements and notes:

Core Statements

- The Movement in Reserves Statement shows the movement in year on the different reserves held by the Organisation.
- The Comprehensive Income and Expenditure Statement summarises the income and expenditure of the Organisation during the year.
- The Balance Sheet shows the value as at the 31st of March 2015 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.
- The Cash Flow Statement shows the changes in cash and cash equivalents of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash and cash equivalents by classifying cash flows between operating, investing and financing activities.
- The Annual Governance Statement sets out the framework designed to ensure that the Organisation operates a sound system of internal control which facilitates the effective exercise of its operations, and which includes arrangements for the management of risk. Whilst it is not a requirement to form part of this Statement of Accounts it is attached to this statement to

aid the user to better understand the governance arrangements in force within the Organisation.

TRADING RESULTS

The climate of serious financial challenge continues in Local Government, forcing authorities to radically rethink which services it seeks to provide and how best to achieve that. In addition the transfer of schools from Local Authority control to Academy status has continued and is expected to continue with it being seen as a solution for delivering performance improvements in the poorer performing schools. In that context, the need for value-adding ESPO solutions, and the requirement for ESPO to deliver them well in a progressive fashion has never been so important.

ESPO has performed strongly in 2014-15 in all aspects of our business including consumables, directs, energy and broader procurement solutions. We continue to demonstrate our commitment to, and understanding of, the broader procurement needs of our stakeholders as evidenced by the increased uptake of our 200 plus frameworks and contracts, both regionally and nationally.

In the letting of these frameworks and contracts, ESPO has successfully balanced the requirements of the Social Value Act, observed sensible financial vetting procedures, established commercial value for customers by aggregating customer demand, and critically understood the local needs in member areas with respect to supporting local businesses.

Our awareness of the local employment challenges faced by members is evidenced by 76% of successful tenders having been secured by small and medium sized enterprises (SMEs) in the last 12 months through ESPO.

Overall the organisation's invoiced turnover for the year including rebates was £93.6million.

Stores' sales value has increased this year by £1.1m (2.53%) to £43.4million. Whilst sales performance remains strong in both schools and academies, the primary driver of new growth has principally been achieved in non-member areas.

The Department of Education Phonics initiative which was launched in September 2011 finished in October 2013 and as a result the year-on-year Directs catalogue products business decreased to £20.5million from £21.6million (including phonics sales) the prior year. This national initiative was co-ordinated by ESPO on behalf of the Pro5 consortium.

The reported Management Accounts surplus of £2.2million compares with the prior year of £2.4million and reflects continued investment in our procurement, IT and marketing capabilities, investment in value for money pricing for our stakeholders and growth in the business.

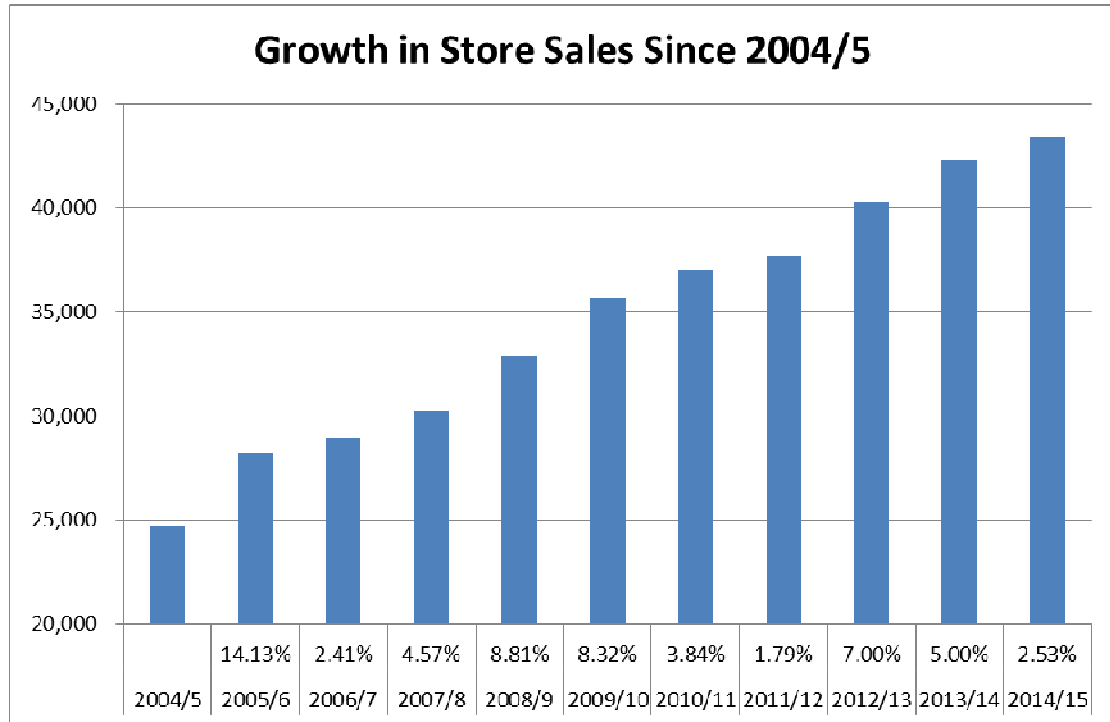
Net cash balances increased by £1.2million during the year to £9.7million, this was after paying a £1.5million dividend to members in December 2014.

STORES

Stores sales were just over £43.4m, an increase of 2.53% on last year.

Total customers now stand at 13,200 with 1,261 added in 2014-15 compared with 1,913 in 2013-14. The higher number in 2013-14 principally due to the Department of Education Phonics initiative.

The growth in Stores sales over the last ten years is illustrated in the following chart:



PROCUREMENT SOLUTIONS

This year has seen the introduction of the Public Contracts Regulation 2015 which has introduced fresh challenges to those involved in public procurement. ESPO hosted the training of 64 ESPO staff and 35 member staff. ESPO also hosted a bespoke training day on PCR2015 for Leicestershire County Council. In advance of that training, ESPO hosted two 'Train the Trainer' days on behalf of the Cabinet Office. Individuals from County, City and District Councils formed part of the delegate list and included three individuals from Leicestershire County Council.

Hand in hand with this, we introduced an e-tendering system to fulfil the mandatory requirement for such solutions by 2017. In 2014/15, we implemented the system and now all our tenders (with exception of small number of further competitions) are done through the system.

In 2014/15, the procurement of the new MSTAR2 framework was awarded. The previous MSTAR framework was very popular and, based on its usage, members will continue to generate significant savings. Also in 2014/15, the

Gas framework was awarded to the incumbent provider Total Gas & Power Limited. This means that customers will save £1.1m over the framework's three years. The team also undertook a successful pricing review of the catalogue to maintain zero overall inflation in the top categories of spend.

MARKETING ACTIVITY

This year we have attended various events, exhibitions and conferences, a mix of local regional and national events which continue to be part of the annual marketing plan for the organisation. This included Academies and Education Shows, LACA free school meals roadshows, NASBM workshops and conference, the Inspiring Leadership Conference, Youth Sports Trust annual conference and a number of regional procurement workshops.

In addition to this, ESPO received the Education Resources Marketing Campaign of the Year Award for the work done on its Universal Infant Free School Meals campaign and the Best Supplier Engagement Award for the Banking Services framework from the Society of Procurement Officers in Local Government.

SIGNIFICANT MATTERS

A valuation of the land and buildings at Grove Park was carried out. The valuation is now £10.5million, an increase of £0.5m on the prior year.

The medium term financial strategy including the budget for 2015-16 was approved by the Management Committee in March 2015. The four year strategy focuses on value for money, increasing return for stakeholders, growth and developing increased capability within the organisation to be the leading public sector procurement organisation in the country.

STAFFING

In reporting another successful year, ESPO also recognises that this has only been possible by the continued effort and goodwill of ESPO's staff.

During 2015 the following staff will achieve 25 years' service with ESPO: Karen Davies, Karen Grewcock, John Johnson, Theresa Norton, Eve Patterson, and Tracy Weston.

I would also like to thank all those who retired during 2014/15 and wish them well. This includes Bobbie Barrett, John Blackwell, Steve Botting, Penny Bradley, Wendy Dilley, Angela Hillyard, John Kavanagh, Deidre Ncyz, James Norman, Lynn Page, Elaine Sagar-Dodd, Nigel Saunders, David Smith, and Richard Tomlinson.

Finally, I would like to acknowledge our Employee of the Year, Gary Lewis, Systems Support Analyst and our winner of the Outstanding Contribution Award, Sara Goodrich, Contract Support Officer. All permanent staff are eligible for these awards and the winners are chosen by their peers.

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ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

DRAFT ANNUAL GOVERNANCE STATEMENT

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To present to members the draft Annual Governance Statement for 2014-15. This has to be formally approved at the September 2015 Management Committee meeting.

Background

2. ESPO has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

Outcomes of Process for Preparing Annual Governance Statement

3. The AGS is structured around the six core principles of good governance as follows:-

PRINCIPLE A: Focusing on the purpose of the organisation and on outcomes for our stakeholders and implementing a vision for the future.

PRINCIPLE B: Members and officers working together to achieve a common purpose with clearly defined functions and roles

PRINCIPLE C: Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour

PRINCIPLE D: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

PRINCIPLE E: Developing the capacity and capability of members and officers to be effective

PRINCIPLE F: Engaging with stakeholders to ensure robust accountability

4. For each of the six core principles we have identified:
 - Governance mechanisms
 - Assurances received

- Weaknesses identified
5. To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, each leadership team member was required to complete a 'Governance Self-Assessment', which provided details of the measures in place within their department to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where departments have identified specific 'areas of improvement', these are incorporated into a departmental action plan to discuss and prioritise implementation during the course of the next financial year.
 6. A review of the effectiveness of the governance framework including the system of internal control has been carried out by the Head of Internal Audit Service. His findings are included in the report and indicate there has been a substantial strengthening of ESPO's governance arrangements and the general direction of travel for future governance arrangements is positive.
 7. A number of areas for improvement have been identified indicative of the more robust approach taken this year. Progress against these areas of improvement will be reported to Members.

Resources Implications

8. None

Recommendation

9. Members are asked to note and make comment on the draft Annual Governance Statement for 2014-15.

Equalities and Human Rights Implications

10. None

Officer to Contact

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Appendices

Appendix A - Draft Annual Governance Statement 2014-15



Annual Governance Statement 2014/15

1. SCOPE OF RESPONSIBILITY

ESPO is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. ESPO also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

ESPO has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website and this statement explains how ESPO has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the Organisation is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Organisation to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ESPO's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at ESPO for the year ended 31 March 2015 and up to the date of approval of the annual report and statement of accounts. ESPO's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework, within each principle we have identified the sources of assurance.

PRINCIPLE A: Focusing on the purpose of the organisation and on outcomes for our stakeholders and implementing a vision for the future.

Under this principle, there is a requirement to:

- Exercise strategic stewardship by developing and clearly communicating the organisation’s purpose and vision and its intended outcome for stakeholders.
- Ensure that users receive a high quality of service whether directly, or in partnership, or by commissioning.
- Ensure the organisation makes best use of resources and that tax payers and service users receive excellent value for money.

Description of Governance Mechanisms: <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Service/Business Plans supported by relevant strategies • Communication Strategy • Performance trends and reports on the progress of service delivery • Formal complaints policy and procedures that inform positive service improvement • Comparison of information on ESPO’s economy, efficiency and effectiveness of services • Instruction on how to measure Value for Money 	<ul style="list-style-type: none"> • Outcomes are delivered through Assistant Director’s plans and strategies which set out objectives and targets in relation to ESPO’s priority outcomes. • Communication strategy that is based on a brand survey of our customers allowing us to provide a better service to our stakeholders. • Performance trends reported through balanced scorecard. Also trends identified in monthly and weekly financial reports. • Annual Report considered by members – supported by approved Medium Term Financial Strategy and Annual Statement of Accounts; • A strategy which sets out how efficiencies included within the MTFS will be achieved; • Industry benchmarking measures undertaken in some departments to determine value for money. 	

PRINCIPLE B: Members and officers working together to achieve a common purpose with clearly defined functions and roles

Under this principle, there is a requirement of ESPO to:

- Ensure effective stewardship throughout the organisation and be clear about member and officer functions and of the roles and responsibilities of the scrutiny function;
- Ensure a constructive working relationship exists between organisation members and officers and that the responsibilities of members and officers are carried out to a high standard;
- Ensure relationships between the organisation, its partners and the public are clear so that each knows what to expect of the other.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Job descriptions for: Director, CFO; Head of Internal Audit Service, AD Finance • Member/Officer Protocol • Constitution • Scheme of delegation, standing orders and financial regulations • Effective Director and Chairman pairing • Compliance with Role of Chief Financial Officer and Role of Head of Internal Audit • Monitoring officer provisions • Conditions of employment including; appraisal arrangements; pay and conditions policies; structured pay scales • Effective performance management system including progress on Key Performance Indicators and identifying areas of improvement • Business and financial planning process 	<ul style="list-style-type: none"> • Constitution sets out ESPO’s political structure and roles and responsibilities of the Committees, the Chief Officers and the rules under which they operate. There are specific job descriptions in place. • Constitution sets out ‘Responsibility for Functions’ including scheme of delegation to the Director. Also includes financial regulations and contract procedure rules. • Regular meetings take place between the Chairman, the Director and the servicing authority. • Assessment of compliance with the CIPFA Statements on the Role of the CFO and Role of the Head of Internal Audit. • Internal Audit Charter sets out the purpose, authority and responsibility for the internal audit function and clearly defines Members and officers’ roles, responsibilities and relationships • Monitoring Officer and CFO are responsible for ensuring an appropriate framework exists to ensure procedures are followed. • Employment Committee at LCC manage and govern all pay matters and are responsible for terms and conditions of service, including remuneration. Pay Policy Statement ensures that ESPO manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way. • Established Finance function maintains sound financial frameworks and supports delivery of MTFS. • Management Committee maintain oversight of management and stewardship of ESPO 	<p>Implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards</p>

PRINCIPLE C: Promoting values for the organisation and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Under this principle, there is a requirement of ESPO to:

- Ensure organisation members and officers exercise Chairmanship by behaving in ways that exemplify high standards of conduct and effective governance;
- Ensure that organisational values are put into practice and are effective.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Annual Governance Statement • Member and Officers Codes of Conduct • Performance appraisal • Procedures for responding to behaviour complaints • Anti –fraud and anti-corruption policies • Standing orders and financial regulations • Register of Interests and Gifts and Hospitality – members and staff • Ethical awareness training and dealing with conflicts of interest • Communicating shared values with members, staff, the community and partners • Whistleblowing arrangements • Decision making practices/framework • Protocols for partnership working • Code of Corporate Governance 	<ul style="list-style-type: none"> • AGS produced by compiling and scrutinising information from Departmental Self Assessments and assurance from Internal Audit Service. • Members of individual authorities are subject to their own Code of Conduct • Adopted LCC Employee Code of Conduct. ‘Dignity At Work’ Policy and Procedures provides employees with examples of unacceptable behaviour, and is complimented by other HR policies • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers align employees PDR priorities and objectives to the service, department and ESPO’s priorities. • ‘Leading for High Performance’ programme underpins the approach to performance management and covers importance of maintaining strong ethical governance. • Adopted LCC Anti-Fraud & Corruption Policy, Strategy and Procedures and Anti-Bribery and Money Laundering. • Draft Constitution sets out ‘Meeting Procedure Rules’ and Financial Rules and Regulations • Organisational Values considered during the PDR, complimented by departmental notices displaying visions and achievements. “ESPO Matters” contains information for all staff. • Embedded ‘Whistleblowing’ procedures. 	

PRINCIPLE D: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Under this principle, there is a requirement of ESPO to:

- Be rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny;
- Have good-quality information, advice and support to ensure that services are delivered effectively and are what the stakeholder wants / needs;
- Ensure that an effective risk management system is in place;

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Finance and Audit Subcommittee • Internal Audit function • Decision making protocols / records of decisions and supporting materials • Members' and officers' code of conduct • Terms of reference and membership • Training for committee members including information needs to support decision making • Calendar of dates for submitting, publishing and distributing timely reports • Approved Risk Strategy/Policy • Effective counter fraud arrangements • Legal advice provided by officers 	<ul style="list-style-type: none"> • Finance and Audit Subcommittee receive reports on the revenue budget and capital programme and performance reports in relation to targets and commitments and action plans arising from inspection and assessment reports. • Internal Audit Service annual plan of audits provide assurance that the governance, risk management and internal control systems of ESPO are operating effectively. • Terms of References for Committees and decision making protocols have been approved by Management Committee and are detailed in the Constitution - records of decisions, with supporting materials available through the Principal Committee Officer • ESPO's risk management framework recently aligned with local government best practice – providing assurance to senior management, Members and public that ESPO is mitigating the risks of not achieving key priorities. • Members of the Management Committee actively engage and take interest in risk management, including detailed scrutiny of the Key Risk Register. • Management Committee adopted the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014) and chose to make a statement in its annual governance report on whether ESPO conforms to the Code or needs to take further action • Monitoring of reports to ensure propriety of decision making and that legal advice is included where necessary and appropriate. • External audit assurance • Chief Officer Group assurance 	<p>Up to date Business Continuity plans need to be implemented.</p>

PRINCIPLE E: Developing the capacity and capability of members and officers to be effective

Under this principle, there is a requirement of ESPO to:

- Make sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles;
- Develop the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.
- Encourage new talent for membership of the organisation so that best use can be made of individuals' skills and resources in balancing continuity and renewal.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Induction programme • Officer training and development plans • Availability and communication of activities • Performance reviews of officers • Workforce Planning • Member training and development 	<ul style="list-style-type: none"> • Induction available to all managers and staff. • Corporate Performance and Development Review (PDR) system in place to appraise the performance of all staff with completion rates monitored and reported. Managers at all grades assessed against behaviours which underpin the management competency framework • Performance management and reporting systems in place at various levels, allowing outcomes to be cascaded and linked to individual development plans. • Member meetings with Director on quarterly basis. Also Members are invited to ESPO to review the business and meet officers. • Liaison Committee meetings 	<p>Succession planning for key posts needs to be implemented</p>

PRINCIPLE F: Engaging with stakeholders to ensure robust public accountability

Under this principle, there is a requirement of ESPO to:

- Exercise Chairmanship through a robust scrutiny function which effectively engages all local institutional stakeholders, including partnerships, and develops constructive accountability relationships;
- Take an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service;
- Make best use of human resources by taking an active and planned approach to meet responsibility to staff.

Description of Governance Mechanisms – <i>Evidence and documents that demonstrate compliance / good practice</i>	Assurances received	Weaknesses identified: <i>Areas for improvement</i>
<ul style="list-style-type: none"> • Database of stakeholders • Annual report • Communication Strategy • Annual financial statements • Decision making and key documents • Freedom of Information Act publication scheme • ESPO Website • Best practice standards in recruitment and staff terms and conditions 	<ul style="list-style-type: none"> • Full public annual report providing information on outcomes and achievements . • ESPO recognise the importance to consult, involve and listen to stakeholders so that the organisation can be improved and future plans made. • Communication strategy based on a brand survey. • The Account Statements set out the published statement of accounts of the Organisation year on year. The accounts have been produced in line with the various regulations that govern local organisation accounting. • Agendas, non-exempt reports (including medium term financial and business strategies and other key policies) and minutes of the meetings of the Management Committee and Finance and Audit Subcommittee are publically available via the Servicing Authority’s website. • Freedom of Information (FOI) and Environmental Information Regulations Policy underpin the key principles of the Information Management Strategy in that ESPO embraces a culture that is open, accessible and accountable, aiming to publish as much information as possible. FOI practices are in place to enable ESPO to meet obligations and aid understanding of public interests. • ESPO website is frequently used as a medium to inform and engage with the stakeholders and updates on the homepage direct users to key information. • Recruitment undertaken in accordance with policy and procedures. 	<p>A database of stakeholders that need to be engaged with needs to be created.</p> <p>Forward plan of consultation and engagement with stakeholders needs to be created.</p>

3. REVIEW OF EFFECTIVENESS

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within ESPO who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The CIPFA/SOLACE Governance Framework details the key sources of typical systems and processes that an organisation can adopt to ensure it has an effective system of internal control. Using this guidance ESPO can provide assurance that it has effective governance arrangements, which have been established through the following:

Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken.

Internal Audit Service

Background

During the financial year 2014-15, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit service to ESPO.

The Internal Audit Service (IAS) should conform to the Public Sector Internal Audit Standards 2013 (the PSIAS). An Internal Audit Charter mandating the purpose, authority and responsibility of the internal audit activity at ESPO was approved by Management Committee in February 2015. The Head of Internal Audit Service (HoIAS) conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform. Whilst these are not significant deviations to the PSIAS, the Consortium Treasurer considers that reference to implementing actions (including embedding the Quality Assurance & Improvement Programme) should be recorded as a key improvement area. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS

In order to meet a PSIAS requirement to form an opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. the framework of governance, risk management and control, the HoIAS constructs an annual risk based plan of audits. Given the continuing improvements in risk management at ESPO, the plan is primarily based on the contents of Corporate Risk Register, Major Risk Records, the four year Strategy and the AGS, to ensure that current and emerging risks are adequately covered. Parts of the plan relate to audits of the key financial systems that are used by the External Auditor in their audit of the financial accounts. A contingency is retained for unforeseen risks, special projects and investigations.

Audit reports often contain recommendations for improvements. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks will likely not arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of other assurance providers), facilitate the HoIAS to form the annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk management and control framework (i.e. the control *environment*).

The HoIAS presents an annual report to the Management Committee in June. The annual report incorporates the annual internal audit opinion; a summary of the work that supports the opinion; performance against the plan, a statement on conformance with the PSIAS and any matters to be raised in the AGS.

For 2014-15, based on audit work undertaken, overall, positive opinions were given in all three components of the control environment (governance, risk management and control)

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of Budget Management; ESPO Services; Business Strategy; Risk Management; Annual Governance Statement; Information Management and Staff purchase scheme. Recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. During the year, Management Committee approved an Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity, and adopted the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption.

The HoIAS has regular discussions with the ESPO Director and Assistant Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits. During the year, the Director of ESPO made arrangements to adopt Leicestershire County Council's (the Servicing Authority's) revised Employee Code of Conduct and a suite of revised and new anti-fraud and corruption policies, strategies and procedures, improving guidance to employees.

HoIAS opinion: - There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

An audit of the project management arrangements for the replacement of the GEMS energy management system identified two high importance recommendations. Verbal assurances on implementing the actions were received and it is planned to conduct a short follow up audit in 2015-16.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management, although re-alignment of key risks to the strands of the four year Strategy and further embedding at operational level would strengthen arrangements. Recommendations have been accepted and so a follow up audit will take place in 2015-16 to confirm their implementation.

Other specific audits conducted that linked to risk management were Applications Management; Supply Chain and Procurement & Compliance Risk Management

The HoIAS advises the External Auditor on ESPO's management of fraud risk.

HolIAS opinion: ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken on ESPO's Rebates Income;

General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards; IT General Controls - External Auditor Reliance; Stock Management; Fleet Management and E-Tendering. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. ESPO volunteered to submit employee and creditors data into the National Fraud Initiative data matching (counter fraud) exercise

HolIAS opinion: Reasonable assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The refresh of the framework aims to ensure that links to Departmental Risk Registers are strengthened, thereby ultimately improving the flow of risk information throughout the Organisation. This revision also included a refresh of the Corporate Risk Register and Risk Management Policy and Strategy – these along with supporting documentation, form an integrated framework that supports ESPO in the effective management of risk.

Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

External Audit

ESPO's external auditors PricewaterhouseCoopers (PWC) gave detailed findings from their planned audit work of ESPO, to those charged with governance through:

Report to those charged with Governance

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The report concluded that no significant audit and

accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion.

Audit opinion for the 2013/14 Statement of Accounts, incorporating value for money conclusion

The audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. For 2013/14, ESPO's statement of accounts presented a true and fair view, in accordance with the relevant codes and regulation.

ESPO's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Organisation which contribute to the production of the Annual Statement of Accounts and positive opinion presented by our external auditors.

ESPO is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, external auditors are satisfied that, in all significant respects, ESPO put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Organisational Governance and Performance Framework

The Senior Management Team and Management Committee receives a quarterly Balanced Scorecard, which includes information relating to:

- Audit and risk management;
- Information issues;
- Procurement;
- Employee related information;

Annual Governance Assurance Statements

The annual review of effectiveness requires the sources of assurance, which ESPO relies on, to be brought together and reviewed from both a department and corporate view.

To ensure this Annual Governance Statement presents an accurate picture of governance arrangements currently in place, senior managers were required to complete a 'Governance Self- Assessment', which provided details of the measures in place within their area to ensure compliance (or otherwise) with ESPO's Code of Corporate Governance. Where specific 'areas of improvement' were identified, these have been incorporated into an action plan for management to discuss and prioritise during the course of the next financial year.

In order to assist the HoIAS' opinion on the adequacy and effectiveness of ESPO's control environment, sample checking of the returns and supporting evidence was conducted. This included:

- Discussion on how the self-assessment was conducted, co-ordinated, discussed and signed;
- Follow up with the Director and two Assistant Directors to confirm their involvement;
- Selecting areas across the range of the six core principles to test if there was sufficient evidence to support the response;

Additionally, two Lead Members were interviewed to confirm that processes in place to inform and update them on key risks and issues relating to ESPO were satisfactory, and a sample of ESPO staff were interviewed to evaluate to what extent they were aware of managements' assertions that staff are kept well informed

The Role of the Chief Financial Officer (CFO) at ESPO this is the Consortium Treasurer

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (2010) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them. The CFO (Consortium Treasurer).

is able to bring influence to bear on all material business decisions, ensuring that immediate and long term implications, opportunities and risks, are fully considered and in alignment with the MTFs and other corporate strategies. The CFO is aware of, and committed to, the five key principles that underpin the role of the CFO, and has completed an assurance statement that provides evidence against core activities which strengthen governance and financial management at ESPO.

The Role of the Head of Internal Audit

CIPFA has issued the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010)*. The statement sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's internal audit arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010)*. The HoIAS works with the Consortium Officers, the Director of ESPO and other members of the Senior Management Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Subcommittee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment. The HoIAS has completed an assurance statement, providing evidence against core activities and responsibilities which strengthen governance, risk management and internal control across the Organisation.

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

- ensuring that decisions taken comply with all necessary statutory requirements and are lawful.
- ensuring that decisions taken are in accordance with ESPO's budget and it's Policy Framework
- providing advice on the scope of powers and authority to take decisions

Where in the opinion of the Consortium Secretary any decision or proposal is likely to be unlawful and lead to maladministration, he/she shall advise the Management Committee accordingly, In discharging this role the Consortium Secretary is supported by officers within the County Council's Legal and Democratic Services Teams

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the above, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

4. GOVERNANCE ISSUES

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2014/15 were sound.

Progress on issues previously identified:

The table below describes the governance issues identified during 2013/14 and the progress made against this during 2014/15. These are not considered material governance issues:

Key Improvement Area	Update on position	Carry forward for 2015/16	Lead Officer
<u>Constitution and Partnership Agreement</u> Finalise agreement to Constitution and Partnership Agreement with individual Members.	Completed	No	Monitoring Officer
<u>Internal Communication</u> Improve staff awareness of the various codes of conduct and other important issues by updating and developing the Intranet	Completed	No	Director
<u>Anti Fraud & Corruption</u> Update all Anti-Fraud and Corruption policies in conjunction with LCC, ensuring specific ESPO concerns are addressed.	Completed, but ongoing commitment required.	No	Director
<u>Learning and Development</u> Improved access to L&D activities for all stakeholders	Completed, ongoing development required.	No	Director
<u>Succession Planning</u> Workforce Planning for Key posts.	Progress but challenges or risks remain	Yes	Director
<u>Internal Audit Charter & QAIP</u> Develop and gain members approval to both a Charter & QAIP	Completed	No	HolIAS

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2014/15 are sound, the assurance gathering process identified key corporate areas of improvement. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

The table below describes identified areas for improvements during the review period 2014/15 to carry forward for monitoring within 2015/16.

Key Improvement Area	Lead Officer	Deadline
<u>Business Continuity</u> Up to date Business Continuity plans need to be implemented	Director	December 2015
<u>Succession Plans</u> Succession planning for key posts needs to be implemented.	Director	December 2015
<u>Stakeholders</u>		

A database of stakeholders that need to be engaged with needs to be created.	Director	March 2016
<u>Forward Planning</u> Forward plan of consultation and engagement with stakeholders needs to be created.	Director	March 2016
<u>Internal Audit Function</u> Implement actions to ensure the internal audit function fully conforms to the Public Sector Internal Audit Standards	Head of Internal Audit Service	March 2016

5. CERTIFICATION

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with the exception of those areas identified in Section 4. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the Council has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

John Doherty
Director

Councillor
Chairman, ESPO Management Committee



ESPO MANAGEMENT COMMITTEE - 24 JUNE 2015

**ANNUAL REVIEW OF ORGANISATIONAL APPROACH TO RISK
MANAGEMENT**

REPORT OF THE DIRECTOR

Purpose of Report

1. To provide members with an annual review of the Organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Background

2. A number of recommendations were identified as a result of a recent review by Leicestershire County Council (LCC) Internal Audit. None of these resulted in a Hi recommendation but the findings have been acted upon.

Risk

3. The current ESPO Risk Management Statement (RMS) has been reviewed and updated as a result of the LCC Internal Audit and is attached as Appendix 1.
4. The principle changes to the RMS were as follows:
 - Review risk categories
 - Amend financial thresholds in line with LCC
 - Review of risk appetite
5. The Corporate Risk Register is reviewed quarterly by the leadership team. Any increased risk, or new risk identified that could have a material impact on ESPO's business will be immediately reported to COG, and subsequently reported to the Management Committee.

Resources Implications

6. None

Recommendation

7. Members are asked to:

- a) note the contents of this report;
- b) approve the revised Risk Management Statement.

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Appendices

Appendix 1 – Risk Management Statement

Appendix 2 – ESPO Corporate Risk Register

Appendix 3 – Example Major Risk Record

Eastern Shires Purchasing Organisation

RISK

MANAGEMENT STATEMENT

Policy, Guidance and Register

Version Control

Version	Date	By whom	Changes	Comments
1	Feb 2007		Formulated	Committee March 2007
2	Jan 2012	DS	Review and Update	Circulation to LEADERSHIP TEAM and Audit for comment
2b	Feb 2012	DS	Updated by strengthening commitment	Committee March 2012
2c	Feb 2013	CP	Review and Update	Committee March 2013
2d	May 2014	CP	Review and Update	Committee March 2014
3	May 2015	CP	Review and Update	Committee June 2015

Risk Management

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RISK MANAGEMENT POLICY

Definitions:

Eastern Shires Purchasing Organisation - "The Organisation"

Eastern Shires Purchasing Organisation's Risk Management Policy - "The Policy"

Purpose of this document

1. The policy forms part of the Organisation's internal control and corporate governance arrangements.
2. The policy explains the Organisation's underlying approach to risk management, documents the roles and responsibilities of the Management Committee, the Director and Leadership Team, and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.
3. In addition, it describes the process the Management Committee will use to evaluate the effectiveness of the Organisation's internal control procedures.
4. The benefit of risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Underlying approach to risk management

5. The following key principles outline the Organisation's approach to risk management and internal control:
 - the Management Committee has ultimate responsibility for overseeing the process of risk management within the Organisation as a whole and they will approve the Risk Management Strategy on an annual basis.
 - the Director and the Leadership Team are responsible for anticipating and identifying, assessing and managing risk, and advising and implementing policies approved by the Management Committee. Managing risk will involve ensuring controls are in place and are regularly monitored, and where

documented on the Major Risk Record (MRR) further action is implemented. In addition the Director is responsible for alerting the Management Committee on new identified risks that are deemed to have a potential serious impact on ESPO business.

- the Organisation makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks
- the Director and Assistant Directors are responsible for ensuring good risk management practice within their divisions
- the Director will report to the Management Committee annually on the Corporate Risk Register.

Role of the Management Committee

6. The Management Committee has a fundamental role to play in the management of risk. Its role is to:
 - i. Influence the culture of risk management within the Organisation;
 - ii. Determine the appropriate risk appetite or level of exposure for the Organisation;
 - iii. Approve major decisions affecting the Organisation's risk profile or exposure;
 - iv. Ensure that a Corporate Risk Register is established, including details of the actions taken to mitigate the risks identified;
 - v. Consider risks attached to proposals for new, or changes to, policies and service delivery arrangements;
 - vi. Annually review the organisation's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

Role of the Director and Leadership Team

7. Key roles of the Director and Leadership Team are to:
 - i. Establish, gain approval from the Management Committee and implement policies on risk management and internal control i.e. to ensure that an adequate risk management framework and associated control environment is in place. Liaise with the servicing authority on all aspects of risk management;
 - ii. Identify, evaluate, and manage the fundamental strategic risks faced by the Organisation for consideration by the Management Committee in line with the six strategic planks outlined in the ESPO Four Year Business Strategy 2014-2018;

- iii. Determine the level of risk appetite, currently set at 10;
- iv. Ensure regular updating of the Corporate Risk Register and review MMRs;
- v. Identify, evaluate, and manage all operational and strategic risks faced by the Organisation. These should be clearly identified as such on the organisation's Corporate Risk Register;
- vi. Business Continuity and Procurement, Health and Safety – sit at Operational risk register level but flow into the Corporate Risk Register because of their significance. The responsibility for managing these is still at Assistant Director level but with scrutiny and challenge by Director as to movement on actions;
- vii. Provide information in a timely manner to the Management Committee on the status of risks and controls.(Timing will depend on the level of risk, but at least annually, and where addition or new risks are evaluated and escalated (such as new procurement projects) then these will be approved prior to sign off);
- viii. To maintain awareness of and promote the risk management policy to all relevant staff (use of key documents published via intranet);
- ix. Arranging/providing risk management training as appropriate;
- x. Ensure synergy with other "risk" systems, e.g. Health and Safety, business continuity and project management;
- xi. Undertake an annual review of effectiveness of the system of internal control and provide a report to the Management Committee.

Role of Procurement Service Managers

- 8. Key roles of the Procurement Service Managers are to:
 - i. Maintain awareness of risk management principles and take responsibility for managing risk within their own working environment;
 - ii. Apply risk management to those risks requiring further action, particularly new developments and "procurement or project" work;
 - iii. Maintain, and update where appropriate any project records of risk assessments undertaken and resulting action plans;
 - iv. Reporting systematically and promptly to their managers or Leadership Team any perceived new risks or failures of existing control measures.

Risk management as part of the system of internal control

9. The system of internal control incorporates risk management. This system encompasses a number of elements that together facilitate an effective and efficient operation, enabling the Organisation to respond to a variety of operational, financial, and commercial risks. These elements include:

a. Policies and procedures

Standard Operating Procedures and policies are used to improve business efficiencies and reinforce a standard approach to documents that are used externally, whilst at the same time underpinning internal control processes. The policies are approved by the Leadership Team and implemented and communicated by senior management to staff. Written procedures support the policies where appropriate.

b. Reporting

Comprehensive reporting is designed to monitor performance, reviewing key risks where appropriate. Decisions to rectify concerns are made at regular meetings of the Leadership Team, and the Management Committee if appropriate. Market information is vital for developing management knowledge as a core element of the business. The mastering of such information through the monitoring of the external environment goes hand-in-hand with a comprehensive risk management process. Capturing and centralising such market intelligence will lead to developing better expertise and organisational capabilities, improving the quality of decision making, and enable a quick response to changing external conditions.

c. Business planning and budgeting

The business planning and budgeting processes are used to set targets, agree action plans, and allocate resources in order to achieve the long term objectives of the organisation articulated in the Business Strategy. Progress towards meeting business plan targets is monitored weekly/monthly depending on individual targets.

d. High level risk framework (strategic risks)

This framework is compiled by the Leadership Team and helps to facilitate the identification, assessment and ongoing monitoring of risks fundamental to the Organisation. These are strategic risks that might impact on the high level, medium to long-term, goals and objectives of ESPO, together with those cross cutting issues that have potential to impact significantly on service delivery, business continuity and profit generation.

The Corporate Risk Register document is appraised annually in December with emerging risks being added as required, and improvement actions and risk indicators are monitored regularly.

e. Operational risk management

These have been considered as the following:

- Health and Safety (Office, warehouse, transport);
- Procurement Projects;
- Business Continuity.

The latter has both strategic and operational aspects and has been considered in **separate documentation**.

i) Health and Safety Committee

- Meets quarterly
- The meeting will be chaired by the Assistant Director - Operations or Health, Safety & Wellbeing Advisor.
- In attendance will be the Health, Safety & Wellbeing Advisor, trade union, staff representatives and a member of the Directorate.
- The function of the Health & Safety Committee is to review the measures taken to ensure the health and safety at work of employees.
- The main objective of the Health & Safety Committee is to promote co-operation between staff and management in instigating, developing and carrying out measures to ensure the health and safety at work of the employees.

Specific Objectives of the Safety Committee are:

- The study of accident and notifiable disease statistics and trends, so that reports can be made to management on unsafe and unhealthy conditions and practices, together with recommendations for corrective action;
- Examination of safety audit reports on a similar basis;
- Consideration of reports and factual information provided by inspectors of the enforcing authority appointed under the Health and Safety at Work Act;
- Consideration of reports which safety representatives may wish to submit;
- Assistance in the development of works safety rules and safe systems of work;
- A watch on the effectiveness of the safety content of employee training;

- A watch on the adequacy of safety and health communication and publicity in the workplace;
- The provision of a link with the appropriate enforcing authority;
- To act as the main forum for fulfilment of the employer's legal duty to consult with Health & Safety Representatives;
- To discuss and review the effect of new Health and Safety law and the organisation's proposals for implementing the new law;
- To monitor and review the effectiveness of the organisation's safety policy;
- To develop and agree health and safety standards and procedures applicable to the workplace;
- To review the organisation and administration of any occupational health and safety services provided by the organisation.
- Review of insurance or other such claims and recommend measures to reduce the likelihood of future claims

ii) Procurement Projects

As ESPO has developed its procurement expertise it has moved (on behalf of customers) into larger more complex contracts. In response to this, ESPO has developed a business case process that requires both reward and risk to be evaluated and assessed as part of the compliance process. Risks are assessed at a Pre-Procurement Panel and at Contracts Panel (contract award) and escalated where necessary to Leadership Team and then to Committee. Supporting the tender process are a series of Standard Operating Procedures and a library of standard documentation. Procurement practice is discussed at the Senior Officers' Group, and the compliance process outlined.

iii) Business Continuity

The following statements may be applicable for inclusion within the policy:

f. Fraud and Corruption

The organisation is set against fraud and corruption and is committed to an effective Anti Fraud and Corruption Strategy . Identification and addressing the risk of fraud and corruption are a key element within this risk management strategy.

g. Auditors

LCC Internal Auditors are required to report to the Director and Consortium Treasurer on internal controls and alert Management to

any emerging issues. In addition, the Director and Treasurer oversee internal audit, external audit and management as required in their review of internal controls. They are therefore well-placed to provide advice to the Management Committee on the effectiveness of the internal control system, including the Organisation's system for the management of risk.

h. Internal audit programme

Internal audit is an important element of the risk management process. Apart from its normal programme of work, internal audit is responsible for aspects of the annual review of the effectiveness of the internal control system within the organisation.

i. External audit

External audit provides feedback to the Management Committee on the operation and adequacy of the internal financial controls reviewed as part of the annual audit.

j. Third party reports

From time to time, the use of external consultants will be necessary in areas such as marketing, IT systems and human resources. The use of specialist third parties for consulting and reporting can increase the reliability of the internal reporting systems.

k. Chief Officer Group (COG)

The COG consists of chief officers from all member authorities who meet regularly with the Organisation's senior management. The COG provides advice and guidance to facilitate the identification and assessment of procurement risks to the Organisation.

Annual review of effectiveness

10. The Management Committee is responsible for reviewing the effectiveness of internal control of the Organisation, based on information provided by the Director, Treasurer and auditors. Its approach is outlined below.
11. For the fundamental risks identified, the Director will seek the Management Committee's approval on the results of:
 - A review of the Organisation's prior year record on risk management and internal control
 - A Review of the risk profile for the coming year and of the adequacy of current internal control arrangements.
 - A recommendation, if required, for investment in further control arrangements.

12. In determining recommendations the Management Committee, the Director will consider the following aspects.

a. Control environment:

- The Organisation's objectives and its financial and non-financial targets
- Organisational structure and calibre of staff available.
- Culture, approach, and resources with respect to the management of risk
- Delegation of authority
- Public reporting.

b. On-going identification and evaluation of fundamental risks:

- Timely identification and assessment of fundamental risks
- Prioritisation of risks and the allocation of resources to address areas of high exposure.

c. Information and communication:

- Quality and timeliness of information on fundamental risks
- Time it takes for control breakdowns to be recognised or new risks to be identified.

d. Monitoring and corrective action:

- Ability of the Organisation to learn from its problems
- Commitment and speed with which corrective actions are implemented.

13. The Director prepares a report of his review of the effectiveness of the Organisation's internal control system within the Annual Statement of Accounts and presented to the Management Committee for consideration and approval (normally the Committee meeting in June, prior to the final approval of Accounts in September).

RISK MANAGEMENT GUIDE

Background

ESPO Management and staff have been facing and managing risk for over thirty years resulting in a successful organisation that has exploited opportunities to become one of the UK's largest local authority purchasing consortium.

However, in recent years there has been increasing focus on the corporate governance arrangements of both public and private companies with the aim of achieving greater transparency. This requirements is reinforced by the recommendation that local authorities should make a statement as to how they have complied with their local governance code, and how they have monitored the effectiveness of their corporate governance arrangements in their annual Statements of Accounts.

Risk Management provides assurance that:

- objectives are more likely to be achieved;
- damaging events will not happen or are less likely to happen; and
- beneficial events will be or are more likely to be achieved.

The risk management method enables:

- the identification and evaluation of risks;
- helps in setting acceptable risk thresholds;
- the identification of controls against such risks; and
- helps identify indicators that give early warning that a risk is becoming more serious.

Risk Definition

Risk is the threat or possibility that an action or event will adversely or beneficially affect the organisation's ability to achieve its objectives.

This definition links risk to achieving the strategic and business objectives and also identifies that risk management is not just about recognising and mitigating negative risks but also identifies risk-taking opportunities that may lead to positive benefits.

Risk can be seen as short term, such as an event, or a conjunction of events harmful to both tangible and intangible assets. It can be also be long term where there is a gradual disconnect between the organisation and its external environment.

Risk management is having the knowledge both to anticipate potential risk, but also to understand how through choice such risks can be minimised. ESPO's aim is to reduce the effects of risk, and/or increase its ability to react by maximising its flexibility through responding whilst maintaining organisational stability. Risk management therefore not only

includes the ability to anticipate forward events through the marshalling of data into intelligence but also involves developing the organisation's capabilities through continuous improvement.

Internal controls

Internal controls are a range of regulations, procedures and policies the organisation uses to manage its work and any additional controls or mitigating actions taken to deal with a particular situation.

The aim of risk management is to ensure that these controls are effective in identifying, evaluating, monitoring and minimising the risks ESPO faces in its day-to-day activities or any future ventures.

The level of risk faced by an organisation before any internal controls are applied is known as the gross or raw risk.

The level of risk faced by ESPO after internal controls have been applied is known as the net or residual risk. Controls will not eliminate the risk but help us to manage it; therefore this is also known as the organisation's "exposure to risk".

The controls are those management actions taken to deal with a particular risk. A judgement is made on the numerical reduction to the raw risk score to produce the residual risk score.

Risk Indicators provide a series of 'warning lights' which provide early warning that action may be required to mitigate a particular risk through stronger internal controls, or if it is outside ESPO's control, to be aware of it and closely monitor.

ESPO also has to determine where it resides in terms of a spectrum ranging from 'risk-taking' to being 'risk averse'. The amount of risk ESPO is prepared to tolerate before action is required is known as 'risk tolerance'

The Size of Risk - Heat Map represents the ESPO's risk scoring matrix.

The following monitoring varies according to the risk score:

- (a) Residual risk score of 6 or less (low level of risk) should require no mitigating action. However, risk owners should review controls for low risk areas to ensure they are effective and not disproportionate. The risk score should be reviewed annually;
- (b) Residual risk score of 8 to 12 (medium level of risk) should trigger a review of the existing controls, if a new risk, and may require the implementation of additional controls for existing risks. Risks with this score should be reviewed annually or twice a year if necessary; and
- (c) Residual risk score of 14 to 20 (high level of risk) should trigger a review of the existing controls, may require the

implementation of additional controls and the problem may need to be escalated to the Management Committee for consultation. Risks with this score should be reviewed at least 6 monthly

- (d) Residual risk score of 20 or above (top level of risk) will trigger a review of the existing controls, is likely to require the implementation of additional controls and the problem should be escalated to the Management Committee for consultation. Risks with this score should be reviewed quarterly.

ESPO's Corporate Risk Register has a summary table ranking each risk according to its score with detailed analysis sheets attached including information on the above

The Management Committee will receive reports, at least annually, on risk management arrangements and assessments. This will include where appropriate any revised policy, and the corporate risk register. Any changes to risk levels highlighted as a result of the Health and Safety and the management of Business Continuity will be reported upon through the corporate risk register together with a report on risk management included within the annual statement of Accounts.

Risk Management Process

The stages are summarised below with a commentary on the arrangements at ESPO.

Identify the risks

This is the first stage to use where the risks that may affect a particular new activity, existing operational activity or project are listed. At this point opportunities can be considered and risks grouped. This work forms the basis of the risk register.

Risks can be classified as Internal or External with the latter being categorised as:

- Reputation
- Financial Loss
- People
- Regulatory
- Business Objectives

This process is facilitated by the Major Risk Record (MRR) Form which forms the basis of the Corporate Risk Register.

Identify probable risk owner(s) and a risk co-ordinator

The risk owner assesses the risk, detailing how actions can be taken and by when to reduce the likelihood and severity of the risk to an acceptable level. All actions detailed need to consider and detail who is do what and

when. If monitoring or reporting is involved the frequency and responsibility for such reports should also be included.

- All risk assessments should be dated (i.e. date of completion) and certified by the risk owner.
- Responsibility and an action completion date should be assigned to all actions on the MRR record.
- Where risks are high, with further action required, action taken and progress on further action taken should be monitored by the leadership team on a quarterly basis

All Risk owners for those risks that affect the whole organisation will be the Leadership Team. At a project level the risk owner should be the project manager. Risk owners should be added to the risk register.

The risk co-ordinator collates all the risks to create a risk register and manages the risk reporting process.

Evaluate the risks

The risks should then be evaluated for impact and likelihood. An assessment of the timing of the risk can also be made.

The scales used for impact and likelihood are as follows:

Impact:

1. Negligible
2. Low
3. Medium
4. High
5. Very High

Likelihood:

1. Very Low
2. Low
3. Medium
4. High
5. Very High

The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25 depending on the severity of the risk. These numbers are indicative only as the process is not an exact science but most importantly it assists in thinking about the risk.

The total risk score divisions are as follows:

- 1 – 6 - Low
- 8 - 12 - Medium
- 14 - 20 - High
- Over 20 - Very high

The Size of Risk - Impact Guide provides examples for likelihood, impact and total risk score. Once this has been completed the risks are prioritised and ranked according to score and proximity. The risk register is updated accordingly.

Identify suitable responses to risk

Where needed, a range of practical responses to each significant risk on the risk register is to be identified and recorded on the register.

Range of responses (controls) to a risk:

- **Reduce** - take action to reduce either the probability of the risk developing further, or its impact.
- **Accept** - when the probability and impact are low producing a total risk score below 7, or when it would be too expensive to mitigate a risk.
- **Transfer** - transferring the risk to a third party, e.g. insurance.
- **Terminate** - identifying actions to eliminate the risk such as withdrawing from the activity.
- **Contingency** - a plan of action to be implemented when a risk develops further or passes through a risk threshold.
- **Prevent** - identifying measures to prevent a risk having an impact on an organisation.

Responses are proportional to the risk and mapped against the risks on the risk register.

Implement responses

The most appropriate responses to each risk will be determined and implemented by ESPO Management in order of priority. Approval for additional earmarked funding required to implement responses may be requested from the Management Committee. Responses when implemented should bring the most serious risks below the risk tolerance thresholds. Once implemented the responses will be monitored by Management and amended as necessary

The risk tolerance threshold score has been set at 10 or less. The exact meaning of this value is somewhat subjective and this is to be reviewed annually to assess whether it is appropriate as a methodology to highlight the key risk areas. All strategic risks even with a score less than 10 will appear on the register. Those that are red will be prioritised and will be considered quarterly by the leadership team.

Assurances about effectiveness

The risk responses implemented are assessed for effectiveness in keeping the risks within agreed tolerance levels by regular monitoring of the risk indicators. Internal and external audit reports provide further assurance on effectiveness.

Embed and review

The risk management arrangements will be reviewed on an annual basis including a review of the risk register and a report will be produced for the Management Committee in June. The report will assess the effectiveness of the measures to control risk with recommendations for improvement or development.

All risks are reviewed quarterly by the relevant Assistant Directors for their operational areas, but those risks above the risk appetite (>10) should feature in the CRR for review and monitoring by the Leadership Team with subsequent reporting to Chief Officer Group and Management Committee.

The Annual Governance Statement (June Committee) will also include a review of Risk Management policy and processes.

Size of Risk - Impact Guide

This Impact Guide is designed to assist in determining the scores applied to any risk. In the application within ESPO a 5 x 5 scale for impact and likelihood is used.

Impact ranges from Insignificant (1) to Very Serious (5). Likelihood ranges from Very Low (1) to Very High (5). The combined scores on a 5 x 5 matrix will give scores ranging from 1 to 25. The scoring will be determined on the basis of the Leadership Team's opinion of the residual risk after taking account of their perception of the effectiveness of the existing controls. These numbers are indicative.

The combined risk score can then be calculated to determine the severity of the risk on the following scale:

- ▶ 1 - 6 Low
- ▶ 8 - 12 Medium
- ▶ 14 - 20 High
- ▶ Over 20 - Very high

Impact Grid

The Impact Grid is the scoring matrix referred to above with risk thresholds applied according to the total risk score. Applying colours in this way is sometimes known as the 'traffic light' method. This gives 3 levels of risk denoted by colours in this case - red being the most serious; yellow being the middle level; and blue the least serious.

If, upon review, a risk crosses one of the thresholds it should trigger either an increase or decrease in the internal controls applied to it.

Severity	5	5	1	1	2	25
	4	4	8	1	1	20
	3	3	6	9	1	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

	Red
	Yello
	Blue

Risk Map

5	4: Trading Loss 30: Power failure	5: Retain staff 8: Governance failures 32: Procurement damages			
4	10: Customer perception	6: Insufficient funding 25: Increased competition	34: Business Continuity 35: Evaluation methodology procurement		
3	15: Strike	2: Loss of business 7: Premises closure 12: Liquidation of suppliers 21: Commercial debtors	20: Fraud 33: Health & Safety 36: Delay supply points	24: Loss of a member	
2		28: Indigo Upgrade	1: Systems failure 14: Loss key staff 22: Energy contracts financial risk 31: Financial vetting challenge		
1					
	1	2	3	4	5
Descriptor	Guide		Descriptor	Guide	
0 – 6 Low	Low level of risk, should not require much attention but should be reviewed at least annually		14 – 20 High	High level of risk should be constantly monitored and reviewed quarterly or 6 monthly. Possibly escalate to higher committee if required	
7 – 12 Medium	Medium level of risk, should be monitored and reviewed annually as a minimum, 6 monthly if necessary		Over 20 – Very high	Top level of risk, should be constantly monitored and reviewed monthly. Possibly escalate to Management Committee	

Size of Risk – Impact Guide

The Impact guides are only for guidance and are not intended to be prescriptive. It should be the worst-case scenario that is usually used to rate the risk.

ESPO					
Description	Reputation	Financial (per annum/per loss)	People	Regulatory	Business Objectives
Negligible	Internal only	<£50K	No issues	No breach of EU Regulations/Law	No impact on Business Objective
Low	Leicester only	£50K-£250K	Minor injury		
Medium	Regional	£250K-£500K	Reputational	Minor Breach of EU Regulations/Law	
High	Member/Local Press	£500K-£750K.	Serious Injury		
Very High	National/Government	>£750K	Fatality	Serious Breach of EU Regulations/Law	Failure to achieve Business Objective

RISK REF:	LINK TO STRATEGY	RISK TYPE	AD OWNER	DATE IDENTIFIED	LAST REVIEWED	DESCRIPTION	EXPECTED IMPACT (A)	LIKELIHOOD (B)	RISK SCORE (A X B)	EXPECTED IMPACT (A)	LIKELIHOOD (B)	RISK SCORE (A X B)	COMMENTS
1	Financial	Operational Risk	Clive Pitt	2007-02-12	2015-01-27	Major systems failure (IT, power, communications etc) preventing service delivery	4	5	20	2	3	6	
2	Customer	Business Risk	Trevor Phipps	2007-02-19	2014-07-16	Failure to meet customers' expectations or requirements leading to loss of business	5	4	20	3	2	6	
5	People	Business Risk	John Doherty	2007-02-19	2012-02-17	Sustained failure to attract or retain quality staff	5	3	15	5	2	10	
6	Financial	Business Risk	Clive Pitt	2007-02-19	2015-01-27	Failure to achieve budget surplus in line with latest MTFS	4	4	16	4	2	8	
7	Operational	Operational Risk	David Godsell	2007-02-19	2014-11-26	Premises closure resulting from fire/flood etc.	5	5	25	3	2	6	
8	Procurement and Compliance	Governance Risk	John Doherty	2007-02-19	2015-01-29	Governance failures by Management	5	3	15	5	2	10	Servicing authority requirements set out in Consortium agreement. Regularly reviewed, and subject to audit. The Annual Governance Statement and Consortium Agreement mitigate the risk of governance failures.
10	Customer	Business Risk	Trevor Phipps	2007-02-19	2014-07-16	Risk of change in customer perception or adverse publicity	4	2	8	4	1	4	
12	Customer	Business Risk	Trevor Phipps	2007-02-19	2014-07-16	Liquidation/closure of major supplier(s)	3	3	9	3	2	6	
14	People	Business Risk	John Doherty	2007-06-28	2015-01-29	Unexpected loss of key senior staff.	4	4	16	2	3	6	Succession planning included within People Plan
15	Operational	Operational Risk	David Godsell	2007-08-31	2014-11-25	Industrial action by ESPO staff	3	2	6	3	1	3	
20	People	Business Risk	Clive Pitt	2009-09-01	2015-01-27	Risk of fraud or corruption by employees	5	3	15	3	2	6	Increased awareness of appropriate policies internally. Subject to internal and external audit. Review of MI. Register of supplier gifts retained.
21	Financial	Funding risk	Clive Pitt	2009-09-01	2015-01-27	Risk of business failure by major commercial debtors	3	3	9	3	2	6	
22	Procurement and Compliance	Business Risk	Kristian Smith	2009-02-08	2014-07-22	Energy Contracts financial risk exposure	4	3	12	2	3	6	
25	Customer	Operational Risk	Trevor Phipps	2012-01-12	2015-01-29	Increased competition	5	4	20	4	2	8	Recruitment of more experience into the Sales and Marketing function, as to how to adopt and manage increased commercial competition.
30	Operational	Business Risk	Clive Pitt	2012-10-03	2015-01-27	Power failure resulting in failure of servers due to over heating, resulting in inability to run the IT systems.	5	3	15	5	1	5	
32	Procurement and Compliance	Business Risk	Kristian Smith	2014-01-05	2014-07-22	Risk of challenge to a procurement exercise resulting in damages and legal costs	5	3	15	5	2	10	
33	Operational	Business Risk	John Doherty	2013-12-12	2015-01-29	Health and Safety compensation claims and fines.	4	4	16	3	3	9	Mitigated to some extent by H&S Committee and Policies
34	Operational	Operational Risk	John Doherty	2014-01-15	2015-01-29	Business Continuity through Fire, Accident, Building Access, Infection etc	5	3	15	4	3	12	Mitigated by Business Continuity Policy and IT recovery annual dress rehearsal.
35	Procurement and Compliance	Governance Risk	Kristian Smith	2014-03-03	2014-07-22	Risk of challenge resulting from the evaluation methodology used in Catalogue procurement	4	4	16	4	3	12	
36	Procurement and Compliance	Business Risk	Kristian Smith	2014-03-20	2014-03-20	Risk of delay in migration of supply points to new energy supplier – at time of change of supplier on the framework, or when a new customer joins the framework	5	5	25	3	3	9	
37	Procurement and Compliance	Governance Risk	Kristian Smith	2015-02-02	2015-02-02	Catalogue procurement (loss of vetted supplier)	4	4	16	4	3	12	
38	Procurement and Compliance	Business Risk	David Kwiatek	2015-02-02	2015-03-31	Optima (potential failure/customer impact)	5	4	20	4	3	12	
39	Financial	Business Risk	John Doherty	2015-02-02	2015-02-04	Impact of the Comprehensive Spending Review on local authorities	4	3	12	4	3	12	
40	Sales & Marketing	Business Risk	Trevor Phipps	2015-03-27	2015-03-27	Failure to protect rebate income from change in commercial landscape and competitor activity (CCS,YPO etc)	5	3	15	5	2	10	MRR to be produced - Focus marketing, promotion & awareness of key ESPO frameworks through Sales teams.
41	Sales & Marketing	Business Risk	Trevor Phipps	2015-03-27	2015-03-27	Risk of losing store and direct catalogue sales due to increased competitor activity and customer behaviours	3	3	9	4	3	12	MRR to be produced - Focus marketing, promotion & awareness of store & direct catalogue products through Sales teams.
42	Financial	Business Risk	Clive Pitt	2015-03-25	2015-05-20	Reliance on technology	5	3	15	4	2	8	
43	Financial	Business Risk	Clive Pitt	2015-03-25	2015-05-20	Aurora upgrade 2016	4	3	12	3	2	6	
44	Sales & Marketing	Business Risk	Trevor Phipps	2015-03-25		Supplier management			0			0	MRR to be produced

RISK REF:	LINK TO STRATEGY	RISK TYPE	AD OWNER	DATE IDENTIFIED	LAST REVIEWED	DESCRIPTION	RAW RISK RATING PRIOR TO CONTROL MEASURES			RESIDUAL RISK RATING FOLLOWING EXPECTED			COMMENTS
							EXPECTED IMPACT (A)	LIKELIHOOD (B)	RISK SCORE (A X B)	IMPACT (A)	LIKELIHOOD (B)	RISK SCORE (A X B)	
45	Procurement and Compliance	Business Risk	Trevor Phipps	2015-03-25		Top rebate-earning contracts			0			0	MRR to be produced
46	Procurement and Compliance	Business Risk	Kristian Smith	2015-03-25	2015-03-31	Not getting everything we are entitled to through collaboration and competition	3	3	9	3	2	6	

Risks identified: Risk of challenge to a procurement exercise resulting in damages and legal costs

Risk categories (such as *Reputation, Governance, Finance, Operational*): **Reputation, Governance, Finance, Operational**

Possible consequences if the risk were to emerge?

1. Substantial claim made as a result of a procurement exercise. Given the nature of the procurements that are let it is possible these claims could be substantial. This could result in ESPO being placed at substantial risk of continuing in business due to level of damages paid and reputational impact.
2. If challenge arises during the procurement exercise then this could delay the procurement and/or result in its abandonment.
3. If challenge is 'official' and through the courts this would involve considerable resource and expense to defend.
4. Supplier challenge could devalue a potential framework agreement benefit to the sector.

Raw Risk Assessment:

Predicted impact of the risk: (Scale 1-5, see Guide)	Predicted likelihood of the risk: (Scale 1-5, see Guide)	Total risk score: (Impact x likelihood, Scale 0-25)
5	3	15
Explanation for rating:	Explanation for rating:	Low / Medium / high
<p>Not limited to single contract – financial loss difficult to quantify</p> <p>Could require significant resource to manage</p> <p>Potential for adverse press exposure and reputational risk</p>	<p>Historical experience suggests a low level of claims, litigious environment suggests this could change</p>	High

Control Measures:

Actions to reduce the likelihood and severity of the risk to an acceptable level?

1. All procurements now subject to either an Outline Business Case and/or Full Business Case which require approval at a Pre-Procurement Panel.
2. All full Business Cases are subject to a full Business Risk Assessment which will highlight any potential residual risk.
3. Residual risk issues will be referred initially to SMT and thereafter to COG and/or Management Committee as deemed appropriate.
4. All procurement exercises are subject to a final Contracts Panel approval to ensure full procurement compliance prior to any award announcement.
5. All procurement awards are fully de-risked in terms of any potential for a remedy of ineffectiveness – by ensuring full compliance with the Remedies Directive in relation to information shared with both successful and unsuccessful tenderers.
6. Contract procedure rules
7. Procurement policies and procedures
8. Procurement performance measures
9. Staff training and development
10. Professional Indemnity Insurance

ESPO Major Risk Record (MRR) Risk Owner: Assistant Director, Procurement & Compliance
Risk Number: 032

Risk indicators to be used to monitor the risk? *(These provide early warning, minimum of 3)*

1. All supplier complaints, requests for debriefings, FOI requests and/or formal and informal challenges are notified to the Director or Assistant Director.
2. Monitoring of ESPO compliance with procurement timetabling to manage reduction in levels of disaffection from both demand and supply side.
3. Monitor case law developments in the sector and network with other PBOs for their 'lessons learnt'.
4. Procurement Performance Measures
5. Procurement Panel Minutes
6. Post award review and feedback

Residual Risk Assessment following Control Measures:

Predicted Impact of the risk: (Scale 1-5, see Guide)	Predicted likelihood of the risk: (Scale 1-5, see Guide)	Total risk score: (Impact x likelihood, Scale 0-25)
5	2	10
Explanation for rating:	Explanation for rating:	Low / Medium / high
Risk of challenge cannot be entirely eliminated.	Improved policies and procedures which demonstrate strict compliance. We could settle early.	High

Further action required to reduce risk:

1. Introduce further standard operating procedures to ensure consistency in market engagements i.e. standard contract templates.
2. Introduce contract/commercial 'refresher' training in-house for procurement staff.
3. Include new Social Value considerations in all EU Service Contracts.
4. Annual Review of Contract Procedure Rules
5. Development of Procurement policies and procedures
6. Development of Procurement Performance Measures

Recommendation to Director/Committee:

The actions identified all remain relevant and on-going
Quarterly update on progress

Signature: Kristian Smith

Date: 10/02/2014
Reviewed no change: 22/07/2014

Score Summary:

Raw Risk Score	Risk Tolerance	Residual Risk Score	Effect of Internal Controls
15/25	10/25	10/25	5/25



ESPO MANAGEMENT COMMITTEE – 24 JUNE 2015

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2014-15

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Management Committee with an annual report on internal audit work conducted during 2014-15.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs.
3. The 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 must conform to the United Kingdom Public Sector Internal Audit Standards (PSIAS) and the accompanying CIPFA Local Government Advisory Note (LGAN). Together, these documents constitute proper practices to satisfy the requirements set out in the Accounts and Audit Regulations 2011 to '*undertake an adequate and effective internal audit of accounting records and of the system of internal control*'.
control'.
4. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the Annual Governance Statement, a draft of which is presented elsewhere on the agenda for this meeting and which will be presented as 'final' to the Management Committee at its meeting in September alongside the Statement of Accounts.
5. The Internal Audit Charter for ESPO defines the Finance and Audit Subcommittee as the Board. The Subcommittee considered and noted the Internal Audit Service Annual Report 2014-15 at its meeting on 9 June 2015. Nevertheless, Management Committee has a responsibility to formally approve the HoIAS' annual report.

6. The annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment
 - b. a summary of the audit work from which the opinion is derived
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

Internal Audit Service Annual Report 2014-15

7. The annual report for 2014-15 is provided at Appendix 1.
8. Headlines from the report are: -
 - a. Overall, positive opinions were given in all three components of the 'control environment' i.e. the framework of governance, risk management and control
 - b. The majority of audits conducted returned substantial assurance ratings
 - c. 80% of planned jobs were achieved with only a small carry over and three cancellations
 - d. Considerable effort was invested into developing and implementing corporate governance improvements
 - e. LCCIAS abides by the principles of the PSIAS but there is need for some key improvements before full 'conformance' can be claimed. This is the only matter required to be reported in the Annual Governance Statement.

Resources Implications

9. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
10. 6 additional days were provided over the planned 185. The total charge to ESPO was £52,300.

Recommendation

11. That the Committee approves the Internal Audit Service Annual Report for 2014-15

Equal Opportunities Implications

12. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Background Papers

Accounts and Audit Regulations (Amendment) 2011

The Public Sector Internal Audit Standards (2013)

Officer to Contact

Neil Jones, Head of Internal Audit Service

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Appendices

Appendix 1 - Internal Audit Service Annual Report 2014-15

Annex 1 - The HoIAS Annual Opinion on the adequacy and effectiveness of ESPO's control environment

Annex 2 - Summary of Internal Audit Service work April 2014 to March 2015 from which the overall opinion is derived

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ESPO

Leicestershire County Council Internal Audit Service Annual Report 2014-15



**Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council**

27th May 2015

LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2014-15

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. Definition of Internal Auditing
 - ii. Code of Ethics
 - iii. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (Management Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of ESPO's Control Environment

6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
7. 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 sub-opinions have been drawn:-

Governance

There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management

ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed

Financial and ICT Control

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.

8. None of the sub-opinions were qualified.
9. At the time of writing this report, the outcomes of three audits hadn't been shared with the Director. It is unlikely there will be any significant changes to the sub opinions.

A summary of the audit work from which the opinion is derived

10. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.

11. Almost all of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Based on the answers provided during the audits and the testing undertaken, the majority of the audits returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they did not have a "high importance" rating signifying a particularly serious control weakness had been identified. The audits of the general ledger reconciliations and ICT general controls are utilised by the External Auditor. All recommendations were accepted.
12. One audit on the project management arrangements for the replacement for the GEMS energy system returned only a 'partial assurance' rating. This was because two "high importance" recommendations were identified due to delays in migrating data and arranging user testing, denoting there was an absence of control and as such achievement of the project's objectives was open to material risk exposure. These were known to, and accepted by the Project Board and the Director of ESPO promptly provided verbal assurances on both progress made and updated plans for implementation. This will be substantiated by the auditor in 2015-16. All recommendations were accepted.
13. Two 'consulting' type audits were undertaken. These can be defined as, '*Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes*'.
14. During 2014-15, ESPO volunteered to supply both its payroll and creditors data to the 'National Fraud Initiative' a nationwide counter-fraud data-matching exercise.
15. There was only minor 'indirect' reliance placed on other assurance providers during the year, through evaluating the roles and responsibilities of accredited food safety organisations' during the audit of managing supply chain risk.
16. There were no known impairments or restrictions to scope.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

17. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2014-15 internal audit plan

	<u>Audits</u>	<u>Complete @ 22/5</u>	<u>Incomplete @ 22/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 13-14	5	5	-	10	15	+5
Follow up HI recs	1	1	-	-	-	-
Planned	23	17	3	155	132	-23
Planned not started	-	-	3	-	-	-
Unplanned	3	3	-	-	7	+7
Client management	-	-	-	20	36	+16
Total	32	26	6	185	191	+6

18. Three planned audits were incomplete at 22nd May, applications management, rebates income and servicing authority role, due to a mixture of both untimely scheduling and delays in quality assurance review by LCCIAS. Some resource has already been utilised in 2015-16 completing these audits.
19. Three planned audits were not started: -
- Governance framework – no particular reason but evidence was gained in the HoIAS attendance at committees and various meetings with the Consortium Treasurer and Secretary and the Director of ESPO.
 - Business Strategy (individual projects) was held back pending ESPO developing the governance framework for the four year Strategy.
 - Counter fraud – delayed pending governance work in adopting both the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the County Council's suite of revised and new anti-fraud policies and strategies.
20. There were three unplanned audits: -
- Attendance management – close a 2013-14 brought forward job
 - National Fraud Initiative submission of data and interpret results
 - Staff purchase scheme – second opinion on the handling of a complaint
21. Client management was significantly higher than planned due to the HoIAS requirement to develop and implement key governance improvements i.e. the Internal Audit Charter for ESPO, the aforementioned CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the additional impact of attending Management Committee to present them.
22. During the year LCCIAS implemented a new internal audit case management system. This has not been without its problems and data quality has been a significant issue so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This is a key improvement area for 2015-16. Nevertheless, the HOIAS can provide assurance that there has been rigorous monitoring of due professional care and quality.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

23. The HoIAS has conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform, and state so in documents and correspondence.
24. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Y = fully conforms
 - Y/P = mostly conforms with some minor areas for improvement
 - P = a balanced result which partly conforms
 - P/N = only some conformance with a real need for improvement
 - N = doesn't conform at all

Table 2 : Summary self-assessment against conformance to PSIAS

Does LCCIAS conform to PSIAS	Y	Y/P	P	P/N	N
1 Definition of Internal Auditing		X			
2 Code of Ethics		X			
3 Attribute Standards (combined)		X			
1000 Purpose, Authority and Responsibility	X				
1100 Independence and Objectivity		X			
1200 Proficiency and Due Professional Care		X			
1300 Quality Assurance and Improvement Programme				X	
4 Performance Standards (combined)			X		
2000 Managing the Internal Audit Activity			X		
2200 Engagement Planning		X			
2300 Performing the Engagement			X		
2400 Communicating Results		X			
2500 Monitoring Progress			X		
2600 Communicating the Acceptance of Risks			X		

25. A detailed list of actions required has been discussed with the Consortium Treasurer. Of these, the need to embed and review progress against the recently implemented Quality Assurance and Improvement Programme (QAIP) is a priority. This is a new requirement for all internal audit providers, and whilst it doesn't mean that quality isn't being managed at LCCIAS, there is a formal requirement to document and prove it.
26. PSIAS 1321 informs that the HoIAS may only state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

Any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

27. The HoIAS has not come across any governance, risk management or internal control issues that would need to be disclosed as key improvement areas or significant governance issues.
28. However, under PSIAS 1322, whilst the results of the HoIAS' self-assessment against conformance to the PSIAS is not considered a significant deviation from the PSIAS, the Consortium Treasurer considers that the reference to continuing actions (including progressing the QAIP) should be recorded as a key improvement area.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

28th May 2015.

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**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2014-15**



**Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council**

27th May 2015

Background

During the financial year 2014-15, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit activity to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is for a specific time interval i.e. 2014-15 and combines: -

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

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the ESPO control environment. However, the caveat at the end of the document explains what internal control cannot do i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment on the basis of the work undertaken and known facts.

Governance related internal audit work

An opinion on whether good governance principles have been applied is based on the results of audits of Budget Management; ESPO Services; Business Strategy; Risk Management; Annual Governance Statement; Information Management and Staff purchase scheme. Recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. During the year, Management Committee approved an Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity, and adopted the principles of the CIPFA Code of Practice for Managing the Risk of Fraud & Corruption.

The HoIAS has regular discussions with the ESPO Director and Assistant Director (Finance), the Consortium Treasurer (and where required the Consortium Secretary) on governance issues and related aspects of audits. During the year, the Director of ESPO made arrangements to adopt Leicestershire County Council's (the Servicing Authority's) revised Employee Code of Conduct and a suite of revised and new anti-fraud and corruption policies, strategies and procedures, improving guidance to employees.

HolIAS opinion: - There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HolIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management related internal audit work

The majority of audits planned and conducted were 'risk based' i.e. ensuring that ESPO management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

An audit of the project management arrangements for the replacement of the GEMS energy management system identified two high importance recommendations. Verbal assurances on implementing the actions were received and it is planned to conduct a short follow up audit in 2015-16.

A specific audit of the ESPO risk management framework (corporate risk register) proved there were yet further improvements and good elements of risk management, although re-alignment of key risks to the strands of the four year Strategy and further embedding at operational level would strengthen arrangements. Recommendations have been accepted and so a follow up audit will take place in 2015-16 to confirm their implementation.

Other specific audits conducted that linked to risk management were Applications Management; Supply Chain and Procurement & Compliance Risk Management

The HolIAS advises the External Auditor on ESPO's management of fraud risk.

HolIAS opinion: ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed.

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken on ESPO's Rebates Income; General Ledger Reconciliations; Trading Performance; Distribution of Surplus; Servicing authority role; Payment Cards; IT General Controls - External Auditor Reliance; Stock Management; Fleet Management and E-Tendering. No findings were of such seriousness as to suggest a fundamental weakness in a main financial system. ESPO volunteered to submit employee and creditors data into the National Fraud Initiative data matching (counter fraud) exercise

HolIAS opinion: Reasonable assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

Dated 27th May 2015
Signed Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council

The control environment

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

Control

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

Control Environment

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

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

The Institute of Internal Auditors further explains that the control environment is the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.

<u>Control environment component</u>	<u>Audit</u>	<u>Final Report Issued (or position @ 22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Internal control	B/F - Servicing Authority	28-May-14	Substantial Assurance	No
Governance	B/F - Anti Fraud & Corruption Framework	Will pick up in 15-16 now that LCC revised policies have been circulated	None	
Internal control	B/F - Key ICT Controls	01-Aug-14	Substantial Assurance	No
Internal control	B/F - Rebates Follow up HI recs	03-Apr-14	Substantial Assurance	No
Internal control	B/F - Rebates Income	09-Jun-14	Substantial Assurance	No
Governance	B/F - Attendance Management	08-Apr-14	Substantial Assurance	No
Internal control	B/F - Energy	15-Jul-14	Substantial Assurance	No
Governance	Budget Management	28-May-14	Substantial Assurance	No
Governance	ESPO Services	13-Feb-15	Substantial Assurance	No
Governance	Business Strategy	Audit postponed due to Director commissioning a Project Health Check by LCC Transformation Unit	Consulting	No
Governance	Risk Management	05-Mar-15	Substantial Assurance	No
Governance	Annual Governance Statement - 13/14 closedown in 14/15	21-Aug-14	Substantial Assurance	No
Governance	Annual Governance Statement – 14/15	31-Mar-15	Consulting	No
Governance	Information Management	Draft issued	Substantial Assurance	No
Governance	Staff purchases	26-Feb-15	Substantial Assurance	No

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<u>Control environment component</u>	<u>Audit</u>	<u>Final Report Issued (or position @ 22/5)</u>	<u>Opinion</u>	<u>HI Rec</u>
Risk management	GEMS Replacement	04-Dec-14	Partial Assurance	Yes
Risk management	Applications Management	Draft being reviewed	TBC	
Risk management	Supply Chain	21-May-15	Substantial Assurance	No
Risk management	Procurement & Compliance Risk Management	Key elements were covered in two other audits. Additional areas identified for testing in 15-16	N/A	
Internal control	Rebates Income	Draft being reviewed	TBC	
Internal control	General Ledger Reconciliations - External Auditor Reliance	02-Apr-15	Substantial Assurance	No
Internal control	Trading Performance	22-May-15	Substantial Assurance	No
Internal control	Distribution of Surplus	25-Feb-15	Substantial Assurance	No
Internal control	Servicing authority	Work in progress	TBC	
Internal control	Payment Cards	26-Feb-15	Substantial Assurance	No
Internal control	IT General Controls - External Auditor Reliance	14-May-15	Substantial Assurance	No
Internal control	Stock Management	04-Jul-14	Substantial Assurance	No
Internal control	Fleet Management	22-May-15	Substantial Assurance	No
Internal control	E-Tendering	Draft issued	Substantial Assurance	No
Internal control	NFI - ESPO	Outputs received & being evaluated	Investigatory	No

Planned audits not started

- Governance Governance Framework
- Risk management Counter Fraud
- Risk management Business Strategy - individual projects

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

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