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:	23 February 2016
My Ref	BH/ESPO
Please ask for:	Ben Holihead
Direct Dialling	(0116) 305 6339
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 on Wednesday, 2 March 2016 at 11.00 am in the Guthlaxton Committee Room, County Hall, Glenfield.

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. Minutes of the meeting held on 4 December 2015.	(Pages 3 - 8)
2. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	
3. Declarations of interests in respect of items on this agenda.	

Chief Executive's Department
Leicestershire County Council, County Hall, Glenfield, Leicestershire LE3 8RA
Telephone 0116 232 3232 Fax: 0116 305 6260 Minicom: 0116 305 6160

4. Items referred by the Finance and Audit Subcommittee.

   There are no specific items referred. The issues considered by the Subcommittee are covered in items 7, 12 and 13 which appear elsewhere on the agenda.

5. External Audit Plan. (Pages 9 - 30)

   Report of PricewaterhouseCoopers.

6. Director's Progress update. (Pages 31 - 40)

   Report of the Director.

7. Management Accounts to December 2015. (Pages 41 - 50)

   Joint report of the Director and Consortium Treasurer.

8. Annual Review of Organisational Approach to Risk Management. (Pages 51 - 72)

   Report of the Director.

9. Date of Next Meeting.

   The next meeting of the Committee has been rearranged to take place on Thursday 21 July 2016 at 11.00am at County Hall.

10. 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 item of business in accordance with the provisions of Section 100(A) (4) of the Local Government Act 1972.

11. Supplementary Information informing the Director's Progress Update. (Pages 73 - 84)

    Report of the Director.

    (Exempt under paragraphs 3 and 10 of Section 100(A)).

12. Forecast Outturn 2015/16 and Draft MTFS. (Pages 85 - 102)

    Joint report of the Director and Consortium Treasurer.

    (Exempt under paragraphs 3 and 10 of Section 100(A)).

13. Four Year Business Strategy 2016 - 2020 (Pages 103 - 154)

    Report of the Director.

    (Exempt under paragraphs 3 and 10 of Section 100(A)).

ESPO

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

PRESENT

Mr. J. Clarke – Warwickshire County Council (in the Chair)

Cambridgeshire County Council

Leicestershire County Council
Dr. R. K. A. Feltham CC
Mr. G. Hart CC

Lincolnshire County Council
Mr. R. Foulkes CC
Mrs. S. Rawlins CC

Norfolk County Council
Mr. M. Castle CC
Mr. I. Monson CC

Peterborough City Council
Mr. J. Holdich CC

Warwickshire County Council
Mr. D. Parsons CC

37. Minutes of the meeting held on 28 September 2015.

The minutes of the meeting held on Monday 28 September 2015 were taken as read, confirmed, and signed.

38. Urgent items.

There were no urgent items for consideration.

39. Declarations of interests.

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.

40. Items referred by the Finance and Audit Subcommittee.

There were no items referred by the Finance and Audit Subcommittee. The Committee was advised that the Subcommittee had considered items 7 – 10 and 14 on the agenda (minutes 46 – 49 and 52 refer). The Subcommittee had supported the new method of calculating the Dividend Distribution, and the proposed reduction in meetings of the Subcommittee. Although there had been some concerns about the impact of continuing austerity measures and the introduction of the national living wage, overall the Subcommittee was content with the current position and future direction of ESPO.

41. Resolution of Internal Audit High Importance Recommendations.

The Committee received a report of the Consortium Treasurer outlining the recent resolution of a high importance recommendation which had been made by the Internal Audit Service. A copy of the report, marked ‘Agenda Item 5’, is filed with these minutes.

At its meeting on 17 November 2014, the Finance and Audit Subcommittee had been informed that high risk recommendations had been made regarding managing the risks around the replacement of the energy management software. The follow up work undertaken since that meeting had provided the appropriate assurance to the Internal Audit Service that these risks were being managed appropriately enough to be signed off.

RESOLVED:

That the contents of the report on the resolution of high importance recommendations be noted.

42. Director's Progress update.

The Committee considered a report of the Director which provided an update on the actions and progress made since the previous ESPO Management Committee held on 28 September 2015. A copy of the report, marked ‘Agenda Item 6’, is filed with these minutes.

Arising from discussion the following points were raised:

(i). Initial monitoring reports indicated that ESPO would meet its Medium Term Financial Strategy target of a £3.3m surplus by the end of the 2015/16 financial year. Store sales were lower but rebate income was higher than had been estimated;

(ii). In previous years ESPO had benefitted from one-off Department for Education initiatives such as the phonics scheme and universal free school meals. The lower store sales were in part attributed to no new initiatives during the financial year;

(iii). The Director had successfully applied for a seat on the British Educational Suppliers Association (BESA) Executive Council. As the educational supplies market was undergoing a period of significant change during the rollout of the academies and free schools programme, it was hoped that this position at BESA would provide ESPO with an effective influence in the market;

(iv). During the year ESPO and its staff had run events to support a number of charitable causes. Members were advised of a proposal to provide old education stock to a charity called EducAid which provided education in Sierra Leone to Ebola-hit communities. Members expressed their support for the proposal;

(v). Sickness absences had decreased but were still considered to be high. There was no underlying pattern to absences other than the majority being in ESPO’s operational teams. Managers were being trained on managing sickness and ESPO would be consulting with Leicestershire County Council as the Servicing Authority on initiatives to reduce sickness in line with its HR policies. The Committee would be provided with a further update in the next Director’s Progress report regarding managing sickness absence;

(vi). With regard to the use of incentives as a means to lowering sickness absences, members were advised that any work around managing sickness absence would have to be undertaken within the policies of the Servicing Authority. It was questioned whether a 'bonus for working' would be an appropriate method to reduce absences.

RESOLVED:

That the contents of the Director's Progress update be noted.

43. Change to the order of business.

RESOLVED:

The Chairman, having sought and obtained the consent of the Committee, changed the order of business from that set out on the agenda.

44. Exclusion of the public.

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled 'Supplementary Information informing the Director's Progress update' 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.'

45. Supplementary Information informing the Director's Progress Update.

The Committee received an exempt report from the Director which set out further supplementary information regarding the Director's Progress Update. A copy of the exempt report, marked 'Agenda Item 13', is filed with these minutes.

The report was not for publication as it contained exempt information relating to the financial or business affairs of a particular person (including the authority holding that information).

RESOLVED:

That the supplementary information informing the Director's Progress Update be noted.

THE MEETING WAS RESUMED IN PUBLIC SESSION

46. MTFS Monitoring for the first Six Months of 2015/16.

The Committee considered a joint report of the Director and Consortium Treasurer monitoring the Medium Term Financial Strategy against the first six months of trading in the 2015/16 financial year. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). It was anticipated that during the winter months gas sales would be lower than expected due to lower gas prices. Members were advised that the effect on revenues would be marginal as the margins on gas sales remained mostly the same irrespective of volume sold;

(ii). Although the use of agency staff had remained high to offset staff sickness absences, overall staffing costs were lower. It was anticipated that as absence management was managed, there would be less use of agency staff;

(iii). Officers maintained cash reserves for ESPO above £6m which would be used to invest in IT and vehicles used by ESPO. There was another £3.6m of reserves which had been saved for specific projects.

RESOLVED:

That the contents of the report monitoring progress against the Medium Term Financial Strategy against the first six months of trading be noted.

47. Proposal to change the basis of calculating the Dividend Distribution.

The Committee received a joint report of the Director and Consortium Treasurer outlining the proposed changes to the method used for calculating the dividend distribution. A copy of the report, marked ‘Agenda Item 8’, is filed with these minutes.

Arising from discussion the following points were raised:-

(i). The current calculation method had been inherited by the ESPO Management Team at a time when Leicester City Council had been a member of the consortium. Subsequently, following discussions with officers, it had been decided to review the appropriateness of the calculation method used;

(ii). The basic principles underpinning any revision to the calculation method were ensuring that 80% of the retained surplus was distributed to members, using a method with encouraged the use of ESPO services, and reflected the previous usage of ESPO services by each member authority;

(iii). A number of models had been trialled and tested with the intention of finding a model which would minimise any possible impact (up to a maximum of a £30,000 swing) on dividend distribution compared to the previous method of distribution. However as the Medium Term Financial Strategy was aimed toward increasing the surplus over the next four years. No member authority would receive less money as a result of these changes;

(iv). The proposals as set out in the report had been supported by the Finance and Audit Subcommittee.

RESOLVED:

a) That the proposed method of changing the dividend distribution be approved;

b) That the calculation method be reviewed in two years time.

48. Impact of the National Living Wage.

The Committee received a joint report of the Director and Consortium Treasurer outlining the possible impact of the proposed National Living Wage on ESPO. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

Arising from discussion the following points were raised:-

(i). It was anticipated that by 2020 the National Minimum Wage could be £9.75 per hour which presented a significant direct financial risk for ESPO. In addition to the direct risk, there was an indirect risk of the impact on customers such as schools which would reduce their income and purchasing power. As the wage would only apply to those aged 25 and over, the material impact on ESPO would be dependent on its workforce age profile at the time;

(ii). The National Living Wage increase would also mean ESPO have to consider the implications for wage differentials;

(iii). Whilst the initial incremental increases would be incorporated into the growth outlined in the Medium Term Financial Strategy, ESPO would have to undertake a number of measures in the later years of the Strategy to counter the impact of the National Living Wage in order to achieve the £6 million surplus;

(iv). It was unlikely that ESPO would receive any tax relief for the impact of the increased wage as it was exempt from paying Corporation Tax.

RESOLVED:

That the contents of the report be noted.

49. Review of the Frequency of Finance and Audit Subcommittee meetings.

The Committee received a report of the Consortium Secretary outlining the proposal to reduce the number of Finance and Audit Subcommittee meetings from four to two per annum. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

The proposal to reduce the number of Finance and Audit Subcommittee meetings had arisen from comments from members at the meeting of the Subcommittee early in the year. Members were advised that from 2016 onwards there would be two meetings to consider key financial documents such as the Medium Term Financial Strategy. However members would be able to request an additional meeting if they felt it was needed.

RESOLVED:

That the proposal to reduce the number of Finance and Audit Subcommittee meetings to two per annum be approved.

50. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on Wednesday 2nd March 2016 at 11.00am at County Hall, Glenfield.

51. <u>Exclusion of the public.</u>

RESOLVED:

That under Section 100(A)(iv) of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it will involve the likely disclosure of exempt information during consideration of the following item of business entitled ‘Strategic Discussion Document to Inform MTFS Assumptions’ 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.’

52. <u>Strategic Discussion Document to Inform MTFS Assumptions.</u>

The Committee received an exempt joint report of the Director and Consortium Treasurer which outlined the assumptions underlying the next Medium Term Financial Strategy. A copy of the exempt report, marked ‘Agenda Item 13’, is filed with these minutes.

The report was not for publication as it contained exempt information relating to the financial or business affairs of a particular person (including the authority holding that information).

RESOLVED:

That the assumptions underpinning the draft Medium Term Financial Strategy be noted.

10.30 am - 12.25 pm CHAIRMAN
04 December 2015

ESPO MANAGEMENT COMMITTEE – 2 MARCH 2016

JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

EXTERNAL AUDIT PLAN 2015/16

Purpose of Report

1. The purpose of this report is to provide details of the scope of the audit to be undertaken by ESPO's external auditor, PriceWaterhouseCoopers (PwC), for the audit year of 2015/16.

2. Steve Hallam of PwC will be present at the meeting to present the Plan.

Resources Implications

3. None.

Recommendation

4. Members are asked to note the contents of the Audit Plan 2015/16.

Appendices

Appendix 1 – External Audit Plan 2015/16

Equalities and Human Rights Implications

5. None have been identified.

Background Papers

6. None.

Officers to Contact:

John Doherty - Director
Tel: 0116 265 7931
j.doherty@espo.org

Chris Tambini - Consortium Treasurer
Tel: 0116 305 6199
Chris.tambini@leics.gov.uk

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www.pwc.co.uk

Eastern Shires Purchasing Organisation

External Audit Plan 2015/16

February 2016

pwc

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

Ladies and Gentlemen,

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

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

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

Yours faithfully,

Richard Bacon

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT
T: +44 (0) 121 265 5000, F: +44 (0) 121 232 2725, www.pwc.co.uk

Contents

Introduction

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the terms of our engagement letter signed on 14th December 2015;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2015/16 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Management Committee to:

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

Our work in 2015/16

We will:

- undertake a non-statutory audit of the accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- see whether the other information in the accounts is consistent with the financial statements;
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Management Committee throughout the year.

Risk assessment

We considered the Organisation's operations and assessed:

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

Our risk assessment shows:

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

Responsibilities

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

Risk Assessment

Risk Assessment Results

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

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

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

- Management override of controls:

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

- Income recognition:

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

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

Both are included in our risk assessment.

Summary of audit risks

A summary of the audit risks identified for 2015/16 is set out below, with further information provided on the following pages.

Risk arising	*Potential impact upon PwC work* — *Accounts true and fair opinion*	*Categorisation for accounts risks*
Management override of controls	◆	● Significant
Income and expenditure recognition	◆	● Significant

Risks	**Risk Level**	**Audit approach**
Management Override of Controls In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly. In your organisation, as the pressure to deliver challenging performance targets increases to meet your Medium Term Financial Strategy, so does the risk of management override.	●	We will review your internal control structure. In particular we will focus our work on testing of journals. This will provide you with assurance over the level of manual and automated journals. We will perform targeted testing over significant estimates within the financial statements. We will carry out unpredictable procedures – this will involve performing ad hoc testing that has not previously been performed over one or more controls or financial statement balances.
Revenue and Expenditure Recognition There is a risk that the Organisation could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the	●	We will: • review the design and operating effectiveness of key income and expenditure controls; • evaluate the accounting policies for income and expenditure recognition; • test the appropriateness of journal entries and other adjustments; • review accounting estimates for income and expenditure, for example, rebates and provisions

reported revenue and expenditure position.

Our audit last year resulted in a change to your accounting policies in relation to recognition of rebate income. It was recommended that an addition to the accounting policy was made, which stated: *"Rebates are recognised where they can be reliably measured and agreed with the supplier and are retrospective. Cash is accounted for in the period it is received."*

Pressures to meet performance targets has placed increased reliance on rebate income as a revenue stream for ESPO. This increases the risk of manipulation of recognition of rebate income.

- analyse trends in relation to income and expenditure during the year and seek to understand any unusual variations; and
- reconcile your management information to the information presented in the accounts on a gross basis.
- undertake testing procedures to ensure rebate income is recognised in line with the accounting policy and within the correct period to which it relates.

Audit approach

Audit requirements

Your statutory obligation to have an audit of your financial statements in accordance with the Audit Commission's Code of Audit Practice ended in the year to 31st March 2015. You informed us in September 2015 that you wish to continue to undertake a non-statutory audit of your financial statements for the year ended 31st March 2016. You have also elected to continue to prepare your financial statements under CIPFA guidance despite no longer having a statutory obligation to do so. We will therefore now conduct our audit in line with International Standards on Auditing (UK and Ireland) as outlined below and in our engagement letter dated 14th December 2015.

Code of Audit Practice

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK&I)") issued by the Auditing Practices Board ("APB") and ethical requirements.

Accounts

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

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

Materiality

The ISA suggests a benchmark of 5 percent of our audit materiality level, which would suggest a 'clearly trivial' level of approximately £94,000 based on the 2014/15 audit. In the previous year, we agreed with you that we would report errors detected over this threshold, we intend to continue using this 5% benchmark for the 2015/16 audit. We therefore propose to discuss these smaller misstatements with management, but apply a threshold to the value of individual misstatements that we report to those charged with governance to be discussed and agreed with you.

Audit Risks

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required. In your organisation, as the pressure to deliver challenging performance targets increases to meet your Medium Term Financial Strategy, we have identified areas of the accounts which we deem to be of higher risk and concern to you. These are outlined on page 8.

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

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

Internal Audit

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

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

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

Risk of fraud

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

Auditors' responsibility

Our objectives are:

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

Management's responsibility

Management's responsibilities in relation to fraud are:

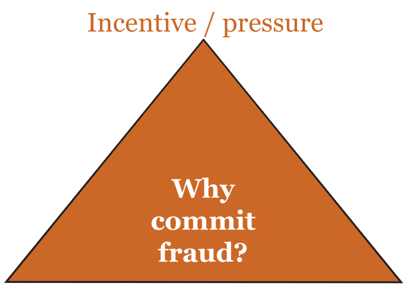
- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and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

Responsibility of the corporate governance committee

Your responsibility as part of your governance role is:

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

Conditions under which fraud may occur



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

Your views on fraud

We enquire of the Management Committee:

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

Our team and independence

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

Audit Team	Responsibilities
Engagement Partner **Richard Bacon** 5th year on the audit 0121 232 2598 richard.f.bacon@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Director and Members.
Engagement Manager **Steve Hallam** 3rd year on the audit 07808 799145 stephen.j.hallam@uk.pwc.com	Steve is the manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.

Our team members

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

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

Independence and objectivity

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

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

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

Non Audit Work

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

Relationships and Investments

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

Independence conclusion

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

Communicating with you

Communications Plan and timetable

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

Stage of the audit	Output	Date
Audit planning	**Audit Plan**	February 2016
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	Throughout the audit
	ISA (UK&I) 260 report incorporating specific reporting requirements, including: • Any expected modifications to the audit report; • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; • Material weaknesses in the accounting and internal control systems identified as part of the audit; • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value for money conclusion	September 2016
Audit reports	**Financial Statements and ISA 260 report.**	September 2016

Audit fees

Our fees will be in line with those included in our proposal for the audit:

	2015/16
Accounts	25,000
Total	**25,000**

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- Our use of resources conclusion and accounts opinion being unqualified.

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

Other engagement information

Proposed form of auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE EASTERN SHIRES PURCHASING ORGANISATION MANAGEMENT COMMITTEE

We have audited the non-statutory financial statements of Eastern Shires Purchasing Organisation for the year ended 31 March 2016 which comprise the Balance Sheet, the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, the Movement in Reserves Statement and the related notes. The financial reporting framework that has been applied in the preparation of these non-statutory financial statements is the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Respective responsibilities of the Consortium Treasurer and auditors

As explained more fully in the Consortium Treasurer's Responsibilities and the Eastern Shires Purchasing Organisation Consortium's Responsibilities [set out on pages..], the Consortium Treasurer is responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the non-statutory financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members for management purposes in accordance with our engagement letter dated 14 December 2015 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the organisation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited non-statutory financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory financial statements

In our opinion the non-statutory financial statements:

- give a true and fair view of the state of the organisation's affairs as at 31 March 2016 and of its profit and cash flows for the year then ended; and

- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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Agenda Item 6

ESPO MANAGEMENT COMMITTEE – 2 MARCH 2015

DIRECTOR'S PROGRESS UPDATE

Purpose of Update

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

Overall Financial Performance

2. Overall financial performance for the nine months to December 2015 can be summarised as:

- Total sales to December are £64.5m against a budget of £69.3m and the prior year of £65.9m.
- The key areas of sales shortfall compared to budget are in Store Sales (£2.7m).
- Rebate income is £3.3m compared the prior year £3.1m.
- Overall costs as a percentage of sales have fallen to 19.8% from 20.2% last year and compared to 19.1% in the budget.
- Overall surplus for the nine months is £1.8m compared to a budget of £1.9m.

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

	YEAR TO DATE		
	ACTUAL £m	BUDGET £m	PRIOR YEAR £m
SALES			
STORES	32.48	35.21	33.39
DIRECT	14.65	14.91	15.29
GAS	13.18	15.27	13.31
CATALOGUE ADVERTISING	0.80	0.83	0.74
REBATE INCOME	3.35	2.96	3.13
MISCELLANEOUS INCOME	0.07	0.11	0.09
TOTAL SALES	64.53	69.29	65.95

4. The balanced scorecard for December is attached as an appendix to this report. Further detail on financial performance for the nine months to December 2015 can be found in a report elsewhere on the agenda.

External Activities and Developments

PBO and beyond

5. On 7 December, Kristian Smith and I met with TTS where we committed to expanding the ESPO offering of TTS curriculum products. This further enhances our credibility as a resources supplier in the Education Market.

6. During the period, ongoing relationship meetings were held with YPO, Hertfordshire, TTS, Youth Sports Trust and a market insight organisation called JEM.

7. As part of the transfer of exercise book business to Nuco International, Nuco hosted ESPO on a visit to the production facilities of its supply chain in Delhi, India. This was a helpful investment in the relationship of a critical supplier, and in particular further prompts a review of overseas sourcing opportunities.

ESPO Internal Developments

Change Programme (formerly referred to as Business Strategy Projects)

8. Progress on Phase 3 projects are as follows:

   - Enterprise Resource Planning (ERP) upgrade

   Sitting at the heart of our IT infrastructure, the ERP system (Aurora, supplied by Infor) is due to be upgraded. This will further improve the service we are able to offer our customers and improve the resilience of our IT. A Project Charter has been prepared and an IT Project Manager has been recruited (starting 8 February 2016). Key project kick-off meetings have been held with Infor and Indigo. In addition, new web servers have been procured and installed. This is a critical and key early step in the project.

   - Building refurbishment

   The building refurbishment programme is well underway. The top floor offices are now complete and the change team are working through the building to facilitate the movements that enable the tradespeople to complete their work. Staff have been complimentary about the new décor and the ease with which the temporary office moves have been undertaken.

   As part of the refurbishment, the residual current devices (RCDs) were upgraded to a 30 amp rating in order to comply with current regulations. ESPO's Health & Safety Officer has also taken the opportunity to look at cable management and seating plans in order to reduce trip hazards and improve visibility in the offices.

- Supply chain

The Supply Chain Panel has contributed to improvements in our supplier performance and therefore our order fulfilment process.

Product availability is an effective measure of performance from a customer perspective and our improvement in this area has continued right through 2015. Product availability has been above the 98% service level target right through the autumn and winter months. Market comparisons, with both private and public sector organisations and companies operating similar catalogue sized businesses, show that the average performance is around 96%.

We have now incorporated the Supply Chain role into the Catalogue Team structure. During 2016, we will focus on the next tranche of the Supply Chain, approximately 40 suppliers responsible for 20% of sales.

Staffing

9. Managing sickness absence at ESPO continues to be a high priority with figures showing a slight decline for the financial year 2015/16 as follows:

- Quarter 1 – 12.25 days lost per FTE
- Quarter 2 – 12.03 days lost per FTE
- Quarter 3 – 11.69 days lost per FTE

10. Since July 2015, the number of attendance management cases being managed at ESPO has increased considerably. Three employees have left the organisation due to ‘ill health retirement’. Ten formal hearings have taken place or been scheduled with the following outcomes:

Outcome	**Number of Staff**
Final Written Warning	6
Dismissal	3
Pending (Early February)	1

11. Most line managers have now attended a workshop on ‘Managing Sickness Absence within the Workplace’ in line with ESPO’s policies and procedures. Further training is scheduled in 2016 for the remainder of ESPO.

12. An Employee Engagement Group is due to commence in early March with the intention to improve employee engagement and discuss relevant ‘people’ and organisational items. This will be chaired by the HR Business Partner with the intention of being a ‘positive’ forum that focuses on solution-based ideas.

13. On Christmas Eve, we held our annual Employee of the Year Awards, recognising eight of our top employees drawn from teams across the business. They were selected for being an integral part of the wider team, always going the extra mile, making a real difference as an individual, a positive difference to

how ESPO is perceived by our customers, consistently exceeding expectations and possessing both wisdom gained through experience and the passion to embrace change as we continue to grow and succeed.

Istvan Todor, Technical Support Officer	Employee of the Year	Istvan has been central to many of the positive changes that have happened at ESPO. This includes the fast pick zone, CEVA seasonal warehouse and current building refurbishment programme which often requires him to work to short deadlines and unsociable hours to ensure success.
Laura Maitland, Category Manager	Outstanding Contribution	Laura is efficient, proactive and friendly in her approach to work and creates positive relationships within her team, wider ESPO teams and with customers. Her willingness to get involved in all aspects of ESPO life including volunteering to be a Health & Safety representative and Fire Marshall marked her out as an essential member of the ESPO team.
Sandra Sewell, Corporate Account Manager	Special Recognition	With an upbeat and positive attitude, Sandra has built positive relationships with colleagues and customers and these have led to an increased spend by them under the frameworks.

ESPO Operational Progress

Operations

14. A warehouse management software upgrade designed to improve the carrier pack routine has been tested and will be deployed in March. This will streamline the packing process, removing non-value-adding processes. A further enhancement for introducing multiple carriers into the despatch process has been scripted and is being planned. This will enable ESPO to utilise a lower cost courier for small and light weight consignments.

15. Assistant Section Leader Dana Pavolvska and Warehouse Operative Fruzsina Ferencz were both awarded Employee of the Month for their work in reducing the walk distances between picks, helping to accelerate the picking process and consequently reduce the cost to pick each order.

16. The new ESPO livery will be rolled out across the dedicated transport fleet using the Agrippa system on the large goods vehicles. This will enable us to change the livery at regular intervals. We are expecting delivery of ten new large goods vehicles (LGVs) in March as part of the planned asset replacement programme; subsequently, ten old vehicles will be ‘retired’ and disposed of at auction.

17. A distribution plan has been created to ensure that the ESPO 2016 catalogue reaches customers at the right time. This will see deliveries being made by the ESPO dedicated fleet and our partner Citipost. A total of 50,000 catalogues will be printed. Through this new process, ESPO will save money on distribution by including catalogues as part of the normal weekly delivery plan.

18. The new powered pallet trucks and stacker trucks have been delivered by Jungheinrich. This equipment will reduce the cost of fork lift truck maintenance over the term of the MTFS. A training regime has been put in place to familiarise the relevant staff with this equipment.

19. Stock availability averaged 99.1 %, ahead of the 98% KPI. The Stock Optimisation Team has been involved in setting up the new stock control process for handling the new sourcing arrangements for exercise books and over 200 new curriculum products that will be featured in the 2016 ESPO catalogue.

Customer service

20. Customer service satisfaction levels continue to be monitored through Feefo the online monitoring and feedback programme. Satisfaction levels have been consistently running between 96-98% for the past six months.

21. We are currently analysing the reasons customers request goods to be returned so we are able to understand if they are service or product related issues. The ultimate aim is to reduce administration and collection costs.

22. We continue to work with Lincolnshire County Council to help resolve the issues in placing orders following the introduction of Agresso. The difficulties schools have had in placing orders with ESPO may help to explain the reduction in sales of around £300k this financial year. Recent trials to “punchout” to the ESPO catalogue have proved successful with a planned roll out, joint communication and “relaunch” of ESPO planned to coincide with the 2016 catalogue.

Sales & Marketing

Campaigns, activities and newsletters

23. ESPO’s programme of internal communications goes from strength to strength; December saw the publication of the annual round-up newsletter celebrating 2015 including photographs from events throughout the year and a summary of staff fundraising activity. It also included an overview of the MTFS and the Director’s Christmas message.

24. During January, an ‘Exercise Books and Papers’ promotion was sent out by email and posted to schools across our Member areas with a 7.5% discount for all orders received (quoting the code) before the end of February. This promotion is designed to drive top line sales and generate orders at a traditionally quiet time of year for our Stores’ business.

25. Regular communications such as ‘Education Bitesize’ and ‘Corporate Bitesize’ will also be received by customers during January with the printed newsletters ‘Education Update’ and ‘Corporate Update’ being distributed towards the end of the month and early February.

26. Targeted communications supporting the introduction of the minimum order value service charge will commence in January, and continue throughout February and March before the charge is implemented in April 2016. Communications will also be attached to order acknowledgements, invoices and delivery notes. Further to this, customer emails will be sent to the majority of customers with direct mail sent to those without email addresses on our system. Over the course of three months, it is expected that customers will receive the information a number of times (dependent upon how frequently they place orders), thereby supporting the smooth implementation of this policy.

27. Planning for the launch of our 2016/17 catalogue is now well underway, with customers across Member areas receiving their new catalogues between 9 March and 24 March. Developments for this catalogue include a new range of exercise books, an enhanced range of curriculum products and more SmartBuy products. An internal staff event to launch the new catalogue is planned for 7 March.

ESPO Risk and Governance Update

Audit Reports

28. In the last quarter, audit reports have been issued for staff engagement in the Annual Governance Statement, the replacement energy management system, National Fraud Initiative, and risk management arrangements. For the energy system audit, it was confirmed that all hi recommendations were implemented. All other audits received substantial assurance.

Health & Safety

29. In the third quarter, there were a total of 21 reported incidents. Injuries included seven bruise/bumps, four cut/lacerations, two strain/sprains and one splinter.

    The single incident of property damage was a cut seat belt in a delivery vehicle. This is being investigated by ESPO’s Transport Team and Leicestershire County Council’s Croft Depot (servicing agents). A brief to all drivers from the shift managers has been issued and seatbelts are now checked as part of the pre-op check list.

30. Five near misses related to pallets pushed through in racking. One near miss was of a counterbalance truck being driven at excessive speed. The driver has been interviewed, received further training and will be re-assessed prior to being reinstated to the FLT pool. The walkways are being set out to better segregate pedestrians from forklift drivers.

31. Two investigations were carried out on AssessNet:

- A faulty pallet drag in a delivery vehicle caused the driver to trip. The drag has since been isolated and repaired. The driver suffered a bruise.
- A contractor suffered a deep cut while cutting carpet tiles on site at ESPO. ESPO first aiders administered immediate remedial measures on the scene. The contractor was subsequently taken to the Leicester Royal Infirmary for further checks. The contractor returned to work the next day.

32. There is one RIDDOR report related to an incident in which a driver sprained his ankle exiting his vehicle when the step gave away. The vehicle has been repaired but the driver has been off work for more than seven days.

33. Health & Safety Committee meetings, training and risk assessments are carried out on an ongoing basis.

Corporate Risk Register

34. In January, ESPO's Leadership Team held its quarterly review of Major Risk Records (MRRs).

35. A new MRR to address the Warehouse Management System provider Indigo will be written up.

36. There are seven high risks which are reviewed monthly. These relate to attracting and retaining quality staff; potential governance failures by management; robust business continuity in the event of an emergency; loss of a vetted supplier in Catalogue Procurement; the potential failure of the Optima implementation; failure to protect rebate income and insufficient support for strategic IT implementation.

37. Implementation of new processes, progression of projects, and recruitment of key staff members mean that a number of these risks will drop to within tolerance over the next quarter.

Business Continuity

38. Business continuity plans have been drafted and currently reviewed by key stakeholders. Following final sign off, training will be rolled out to those staff identified as gold, silver and bronze employees as appropriate.

Bad Debt

39. A debt of £6,633.65 has been incurred with JGR Trading Limited. This company purchased old and obsolete stock from ESPO in early 2015. ESPO has taken all available legal measures to recover the debt including High Court and County Court for a judgment (CCJs), regretfully however recovery is now considered unlikely.

Local Government Pay 2016

40. On 3 December 2015, the Local Government Association (on behalf of Local Government pay negotiations for 2016) met with the unions to reach an agreement which took into account the requirements of the National Living Wage from 1 April 2016. Two of the three unions, UNISON and Unite, are recommending that this agreement be rejected.

41. Therefore in the absence of the National Joint Council (NJC) reaching a pay agreement to be implemented in time for 1 April 2016, ESPO has been advised to begin making preparations for employees currently paid on pay points 3, 4, 5 and 6 to have their pay increased in accordance with the National Living Wage (£7.20 per hour), which equates to £13,891 per annum (based on working a 37 hour week). This figure should continue to be paid until such time as the NJC finalises a pay agreement.

Enterprise Resource Planning (ERP)

42. On 15 January, emergency works took place on ESPO's ERP system requiring a shutdown of the server to fix a faulty part. In addition to impacting in-house systems, there was some minor disruption to customers, with order punch-out being unavailable and the catalogue website not showing prices during the shutdown; a message to this effect was on the catalogue website while the engineers were on site. This was planned for a Friday evening and the repair was successful.

Resources Implications

43. None arising directly from this report.

Recommendation

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

Officer to Contact

John Doherty, Director
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0116 265 7931

Appendices

Appendix 1 - Balanced Scorecard

Summarised Balanced Scorecard Dec 15

Financial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Total Sales (inc Gas & Rebates)	£5,670,623	£6,913,343	-18.0%	£64,526,990	-6.9%
Total Gross Margin inc Consumables Cost	£1,021,970	£1,052,640	-2.9%	£14,542,580	-3.6%
Total Expenditure	£1,302,541	£1,356,486	-4.0%	£12,755,653	-3.5%
Surplus	-£280,572	-£303,846	7.7%	£1,786,927	-4.0%
Net Profit Margin %	-4.95%	-4.40%	-0.55pp	2.77%	0.08pp

Rolling 12 months.....

Net Profit Margin %	3.13%	2.17%	0.96pp
Asset Turnover	4.2	4.6	-0.3
ROCE	13.22%	9.91%	3.32pp

Full year up to Nov 15 data....

	No. FTE at Nov 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	343	3,949	11.5	10.3	-1.2

Highlights

Finance & IT

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Proportion of E Orders	19%	20%	-0.58pp	19%	-0.73pp
Proportion of E Invoices	31%	20%	10.97pp	27%	6.70pp
Web Sales	£343,201	£321,452	6.8%	£5,507,480	16.9%

Commercial

	Actual	Budget /LY	Var	YTD Actual	YTD Var
New Customers	61	80	-19	844	84

	Target	Q1	Q2	Q3	Q4
Customer Satisfaction Rate	2.4/4	3.15/4	3.28/4	3.38/4	0.0%
% Renewed on time	90%	93%	96.2%	95.8%	0.0%

Operations

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Lines picked per hour	33	22.5	10	29	7
Error rate	1%	2%	-1.00pp	4%	1.50pp
Calls Abandoned	2.2%	3.0%	0.75pp	2.8%	0.16pp

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Agenda Item 7

ESPO

ESPO MANAGEMENT COMMITTEE – 2 MARCH 2016

MTFS MONITORING FOR THE FIRST NINE MONTHS OF 2015/16

REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. This report sets out the results for the first nine months of trading April to December 2015 as per the management accounts, with explanations for the more significant variances to budget.

Background

2. The Management Committee is updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

Financial Performance for the first nine months of 2015/16 compared to the MTFS

Sales

	YEAR TO DATE		
	ACTUAL	BUDGET	PRIOR YEAR
	£000	£000	£000
SALES			
STORES	32,482.8	35,208.2	33,394.0
DIRECT	14,645.7	14,905.8	15,289.8
GAS	13,180.9	15,267.2	13,311.0
CATALOGUE ADVERTISING	800.7	835.0	740.3
REBATE INCOME	3,348.5	2,959.1	3,127.2
MISCELLANEOUS INCOME	68.3	112.5	85.3
TOTAL SALES	**64,527.0**	**69,287.7**	**65,947.5**

3. Total sales at £64.5m are £4.8m behind budget of £69.3m, principally down to lower 'store' sales which are showing a negative variance of £2.7m. Gas sales are adverse to budget by £2.1m. This is principally due to lower wholesale prices, the benefit of which has been passed on to our customers. The impact on

profit is thus negligible.

4. ‘Store’ sales are £2,726k behind budget and £912k adverse to last year. The key area of decline has been in our non-education ‘store’ sales; our education business is holding up comparably well.

5. ‘Direct’ sales are £260k behind budget helped by a large Ministry of Defence order for white goods. Compared to the prior year, there is a £131k adverse variance principally due to the one-off impact of the free school meals initiative last year.

6. Rebates are £389k ahead of budget and £221k ahead the prior year. The key framework contracts such as MSTAR continue to perform strongly. The key objective remains that rebates are at least in line with the prior year.

7. Catalogue advertising is £35k down on budget and £60k ahead of the prior year.

Margin

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
Margin						
STORES	8,284.7	34.2%	9,215.4	35.5%	8,421.6	33.7%
DIRECT	1,828.7	14.3%	1,714.8	13.0%	1,808.8	13.4%
GAS	211.7	1.6%	245.2	1.6%	155.6	1.2%
CATALOGUE ADVERTISING	800.7		835.0		740.3	
REBATE INCOME	3,348.5		2,959.1		3,127.2	
MISCELLANEOUS INCOME	68.3		112.5		85.3	
TOTAL MARGIN	**14,542.9**		**15,082.0**		**14,338.8**	

8. Overall margin is £514k down on budget, principally due to lower ‘store’ sales offset by improved ‘directs’ margin.

9. ‘Stores’ mark-up is 34.2% compared to a budget of 35.5% and a prior year of 33.7%. Clearly the budget mark-up was a challenge but the bulk of the absolute pounds variance is down to volume.

10. The impact of the additional ‘directs’ mark-up is the increased margin of £114k.

11. The extra rebates have contributed £389k to margin.

Expenditure

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
EXPENDITURE						
EMPLOYEES						
Staff	7,453.8		8,015.0		7,333.0	
Agency/Contract	889.3		711.0		1,122.6	
Total	**8,343.1**		**8,726.0**		**8,455.7**	
OVERHEAD EXPENSES						
Transport	1,462.6		1,468.0		1,698.3	
Warehouse	1,298.4		1,343.1		1,408.0	
Commercial	926.8		967.5		950.7	
	3,687.9		**3,778.6**		**4,057.1**	
Finance and IT	647.4		690.2		666.2	
Directorate	77.6		26.4		110.6	
	725.0		**716.5**		**776.8**	
Total	**4,412.9**		**4,495.2**		**4,833.9**	
TOTAL EXPENDITURE	**12,756.0**	**19.8%**	**13,221.2**	**19.1%**	**13,289.6**	**20.2%**
As % of Total Sales Excluding Gas		**24.8%**		**24.5%**		**25.2%**

12. Total expenditure is £465k lower than budget principally driven by lower staff costs. The lower staff costs are principally down to reduced full time equivalent (FTEs).

13. As we move to a more variable cost base in the warehouse agency costs are £178k adverse to budget. As vacancies are not filled, they are covered by agency staff.

14. Overhead expenses are £9k over budget principally down to tasking.

15. The key metric of overheads as a percentage of sales is improving year on year but due to the lower volume is 0.3% adverse to budget (excluding gas).

16. FTE numbers as at December 2015 are as follows:

EMPLOYEES NUMBERS (Full-time equivalents):	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	YEAR TO DATE PRIOR YEAR
Operations	187	194	197
Commercial	110	129	110
Finance, IT and Directorate	41	40	41
TOTAL EMPLOYEES	**337**	**364**	**348**

17. Managing sickness absence at ESPO continues to be a high priority with figures showing a slight decline for the financial year 2015/16 as follows:

    - Quarter 1 – 12.25 days lost per FTE
    - Quarter 2 – 12.03 days lost per FTE
    - Quarter 3 – 11.69 days lost per FTE

18. Since the commencement of the new HR Business Partner and HR Advisor in July 2015, the actions taken to reduce sickness absence at ESPO includes:

    - Correcting Oracle reporting lines and organisational structure in order that more detailed analysis could be undertaken to pinpoint where the potential high sickness levels occurred;

    - Using all absence trigger events to follow up discussions with employees about their sickness absences, and using support plans as appropriate;

    - Following data analysis highlighting that not all significant sickness absences hit trigger events, implementing processes to effectively manage attendance in line with the policy;

    - The HR Advisor jointly managing all sickness absence cases with managers to ensure Attendance Management policy and procedures are being adhered and managed appropriately;

    - Detailed sickness absence reports becoming a regular monthly agenda item at the Leadership Team meetings;

    - The roll out of a bespoke ESPO ‘Managing Attendance in the Workplace’ for all line managers in December 2015 and January 2016;

- Additional administrative support at ESPO to assist with further analysis and carrying out more routine functions and to escalate cases to the HR Advisor as appropriate.

19. Since July 2015, the number of attendance management cases being managed at ESPO has increased considerably. Three employees have left the organisation due to 'ill health retirement'. Ten formal hearings have taken place or been scheduled with the following outcomes:

Outcome	Number of Staff
Final Written Warning	6
Dismissal	3
Pending (Early February)	1

20. While the current twelve-month rolling figure is at 11.69 days lost per FTE, we intend to hit the overall target of 7.5 days lost per FTE during 2016/17.

<u>Surplus</u>

	YEAR TO DATE					
	ACTUAL		BUDGET		PRIOR YEAR	
	£000	%	£000	%	£000	%
TRADING SURPLUS	1,786.9	2.8%	1,860.8	2.7%	1,049.2	1.6%

21. Trading surplus is £74k behind budget and £737k ahead of last year.

22. The variance to last year is due to the following:

- £300k lower allocation to reserves (in line with MTFS plan)
- £204k additional overall margin
- £233k overhead savings

23. It remains the target and ambition to achieve the budgeted £3.3m surplus. As previously indicated this will be difficult and will require a strong 'store' sales and rebate performance in the final quarter.

Service Line

24. The detailed service line analysis is included in Appendix 1 showing performance compared to budget for the ‘stores’, ‘directs’, energy and procurement. All areas are making a net contribution.

Balance Sheet and Cash Flow

25. A detailed balance sheet and cash flow is included in Appendix 2.

26. Overall stock levels are £495k lower than at last year end reflecting improved stock optimisation processes. Stock availability remains over 98%.

27. Debtors are £822k lower than last year-end. Debtor days were 29.1 compared to 26.2 this time last year.

28. In December 2015, the dividend of £1.5m was paid to Members.

Resources Implications

29. None

Recommendation

30. Members are asked to consider and comment on the contents of the report and the attached appendices.

Equalities and Human Rights Implications

31. There are no discernible implications arising as a result of this report.

Risk Assessment

32. None identified

Officers to Contact

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Appendices

Appendix 1: Service Line Analysis
Appendix 2: Balance Sheet and Cash Flow

Appendix A

SERVICE LINE INCOME AND EXPENDITURE

Dec-15

ACTUAL	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	32,483	0	0	0	32,483
DIRECT	0	14,646	0	0	14,646
GAS	0	0	13,181	0	13,181
CATALOGUE ADVERTISING	0	0	0	801	801
REBATE INCOME	154	0	600	2,595	3,349
MISCELLANEOUS INCOME	47	0	1	20	68
Total Sales	**32,683.3**	**14,645.7**	**13,782.1**	**3,416.0**	**64,527.1**
Less Cost of Sales	24,198	12,817	12,969	0	49,984
Surplus on Trading Account	**8,485.3**	**1,828.8**	**812.9**	**3,416.0**	**14,542.9**
Wages and Salaries	3,148	797	301	1,861	6,107
Agency Costs	839	9	0	22	870
Other Expenses	1,298	272	19	635	2,225
Transport	1,463	0	0	0	1,463
Operating Surplus	**1,736.6**	**749.8**	**492.4**	**898.3**	**3,877.0**
%	5.3%	5.1%	3.6%	26.3%	6.0%
Contribution to Central Costs					
Finance and IT	602	402	67	268	1,339
Marketing	0	0	0	0	0
Directorate	233	233	45	240	751
Net Surplus	**901.2**	**115.2**	**380.4**	**390.1**	**1,786.9**
	2.8%	0.8%	2.8%	11.4%	2.8%
Check Balance					0

BUDGET	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL

	£000	£000	£000	£000	£000
STORES	35,208	0	0	0	35,208
DIRECT	0	14,906	0	0	14,906
GAS	0	0	15,267	0	15,267
CATALOGUE ADVERTISING	0	0	0	835	835
REBATE INCOME	0	0	431	2,528	2,959
MISCELLANEOUS INCOME	79	0	0	34	113
Total Sales	**35,287.0**	**14,905.8**	**15,698.6**	**3,396.4**	**69,287.7**
Less Cost of Sales	25,993	13,191	15,022	0	54,206
Surplus on Trading Account	**9,294.2**	**1,714.8**	**676.6**	**3,396.4**	**15,082.0**
Wages and Salaries	3,364	882	317	2,059	6,621
Agency Costs	634	14	0	34	683
Other Expenses	1,343	278	41	649	2,311
Transport	1,468	0	0	0	1,468
Operating Surplus	**2,484.9**	**540.0**	**319.3**	**655.1**	**3,999.2**
%	7.0%	3.6%	2.0%	19.3%	5.8%
<u>Contribution to Central Costs</u>					
Finance and IT	647	431	72	287	1,437
Marketing	0	0	0	0	0
Directorate	217	217	42	224	701
Net Surplus	**1,620.7**	**(108.6)**	**205.4**	**143.2**	**1,860.8**
	4.6%	-0.7%	1.3%	4.2%	2.7%
Check Balance					0

ACTUAL V BUDGET VARIANCE	STORES	DIRECTS	ENERGY	PROCUREMENT	TOTAL
	£000	£000	£000	£000	£000
STORES	(2,725)	0	0	0	(2,725)
DIRECT	0	(260)	0	0	(260)
GAS	0	0	(2,086)	0	(2,086)

CATALOGUE ADVERTISING	0	0	0	(34)	(34)
REBATE INCOME	154	0	168	68	389
MISCELLANEOUS INCOME	(32)	0	1	(14)	(44)
Total Sales	**(2,603.6)**	**(260.0)**	**(1,916.5)**	**19.6**	**(4,760.6)**
Less Cost of Sales	(1,795)	(374)	(2,053)	0	(4,221)
Surplus on Trading Account	**(808.9)**	**113.9**	**136.3**	**19.6**	**(539.1)**
Wages and Salaries	215	85	15	198	514
Agency Costs	(205)	5	0	12	(188)
Other Expenses	45	6	22	13	85
Transport	5	0	0	0	5
Operating Surplus	**(748.3)**	**209.8**	**173.1**	**243.2**	**(122.2)**
%					
Contribution to Central Costs					
Finance and IT	44	30	5	20	99
Marketing	0	0	0	0	0
Directorate	(16)	(16)	(3)	(16)	(50)
Net Surplus	**(719.6)**	**223.8**	**175.0**	**246.9**	**(73.9)**

Appendix B

EASTERN SHIRES PURCHASING ORGANISATION

CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT

31st March 2015 £	£		£	Dec-15 £
		FIXED ASSETS :		
	10,774,594.0	Net tangible Fixed Assets		11,167,083.0
		CURRENT ASSETS :		
5,392,376		Stocks	4,897,251	
8,172,572		Debtors	7,350,194	
1,360		Cash	810	
1,380,000		Short Term Investments	0	
	14,946,308.0	Other Current Assets		12,248,255.0
		CURRENT LIABILITIES :		
636,884		Short Term Loan	500,000	
11,504,765		Creditors	7,997,072	
625,893		Other current Liabilities	919,981	
-8,391,469	4,376,073	Cash Overdrawn	-7,835,926	1,581,127
	10,570,235.0	**NET CURRENT ASSETS**		10,667,128.0
		LONG TERM LIABILITIES		
	8,000,000	Long Term Borrowings		7,500,000
	13,344,829.0	**NET ASSETS**		14,334,211.0
		REPRESENTED BY:		
	11,222,789	Usable Reserves		11,265,791
	2,122,042	Unusable Reserves		3,068,421
	13,344,831.0	Total Reserves		14,334,212.0
				1
	1.41	Acid Ratio		1.61
	31.9	Debtor Days		29.1
	47.7	Creditor Days		43.7

Cash Flow from 01/4/2014 to	**Dec-15**
Surplus	1,438,787.0
AFINIMOFS	
Allocations to Maintenance and Equipment Reserves	120,003
Movement in Fixed Assets	(392,489)
Movement in Unusable/Earmarked Reserves	887,533
Total	2,053,834.0
Movement in Long Term Borrowings	(500,000)
Payment of Dividend	(1,456,940)
Movement in Long Term Items	(1,956,940.0)
(Increase)/Decrease in Stock	495,125
(Increase)/Decrease in Debtors	822,378
Increase/(Decrease) in Creditors	(3,350,489)
Movement in Working Capital	(2,032,986.0)
Total	(1,936,092.0)
Movement in Cash Balances	(1,936,093.0)
	(1)

ESPO MANAGEMENT COMMITTEE - 4 MARCH 2016

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 ESPO'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's 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 has been reviewed and updated as a result of Leicestershire County Council's Internal Audit and is attached as Appendix 1.

4. 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 the member authorities.

Resources Implications

5. None

Recommendation

6. Members are asked to approve the revised Risk Management Statement.

Officer to Contact

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Appendices

Appendix 1 – Risk Management Policy
Appendix 2 – ESPO Corporate Risk Register greater than 10

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 SMT 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
4	Feb 2016	SL	Review and Update	Committee March 2016

Risk Management

Index

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 strategy dated March 2015.

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 Management

8. Key roles of Procurement Management 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 MTFS for 2015-2019. 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. To meet quarterly. The meeting will be chaired by the Assistant Director - Operations or the Warehouse Manager. In attendance will be the Director, trade union and staff representatives. 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. Risk 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 Chief Officers Group.

iii) Business Continuity. A complete rewrite of our Business Continuity documentation has been undertaken by our recently appointed Business Continuity consultants, Phoenix. It was considered important to appoint experts in the field to update our existing documentation. This policy is reviewed on a quarterly basis.

iv) The risks within the change programme have now been incorporated in to the CRR. Alongside the risks within the CRR, any risks that have a residual score of 10 or more are reviewed on a quarterly basis. Any new risks are added and obsolete risks are deleted from the register.

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 it 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, above a residual score of 10, with further action required, action taken and progress on further action taken should be monitored by the leadership team on a quarterly basis. Any new risks are added and obsolete risks are deleted.

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 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 will 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 Negligible (1) to Very High (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	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood				

	Red
	Yellow
	Blue

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.

Level	Severity	Reputation	Financial (per	People	Regulatory	Business Objectives
1	**Negligible**	Internal	Less than £50,000	No	No	• No impact
2	**Low**	Local (Minor adverse publicity)	Between £50,000 - £250,000	Minor Injury	No Consequence	• Loss of a minor contract
3	**Medium**	Local or limited adverse publicity	Between £250,000 - £500,000	Major reversible injury	Limited regulatory consequence	• Major IT Project is late • Loss of a major contract
4	**High**	Negative headlines in national press	Between £500,000 - £750,000	Serious Injury	Significant regulatory consequence	• Member authority leaves Consortium • ESPO IT systems fail and cannot be recovered • Major loss of sales due to staff shortages in the warehouse e.g. Flu pandemic
5	**Very High**	Sustained negative headlines in regional/national press	Greater than £750,000	Fatality	Substantial regulatory consequence	• Major buildings fire resulting in closure • Sustained failure to recruit staff

Size of Risk – Likelihood

Level	Descriptor	Likelihood	Description
1	**Negligible**	2% Likely	May occur only in exceptional circumstances
2	**Low**	5% Likely	Not likely to occur in normal circumstances
3	**Medium**	10% Likely	Could occur at some time
4	**High**	20% Likely	Will probably occur in most circumstances
5	**Very High**	50% Likely	Is expected to occur in most circumstances.

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							ISSUED/ REVISED DAT Rolling as Last Review MRR						
							RAW RISK RATING PRIOR TO			RESIDUAL RISK RATING FOLLOWING			
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
5	People	Business Risk	John Doherty	2007-02-19	2016-01-07	Sustained failure to attract or retain quality staff	5	3	15	5	2	10	Strategic People Plan will help to mitigate
6	Financial	Business Risk	Clive Pitt	2007-02-19	2016-02-22	Failure to achieve budget surplus in line with latest MTFS	4	4	16	4	3	12	Updated from recent F&A Committee 22/2/16
8	Procurement and Compliance	Governance Risk	John Doherty	2007-02-19	2015-09-21	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.
34	Operational	Operational Risk	John Doherty	2014-01-15	2015-09-21	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.
38	Procurement and Compliance	Business Risk	David Kwiatek	2015-02-02	2015-11-16	Optima (potential failure/customer impact)	5	4	20	4	3	12	Monthly projetc board meetings. Roll out done in considered fashion to minimise customer impact.
48	Operational	Operational Risk	John Doherty	2015-06-25	2016-02-21	Strategic IT Succession Planning	4	4	16	4	3	12	Mitigated by recent appointment of Head of IT Transformation

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