



Date:  
My Ref                      BH/ESPO  
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

### **ESPO FINANCE AND AUDIT SUBCOMMITTEE**

A meeting of the Finance and Audit Subcommittee will be held at on Monday, 22 February 2016 at 11.00 am in the Gartree 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**

<u>Item</u>		<u>Pages</u>
1.	Minutes of the meeting held on 16 November 2015.	(Pages 3 - 8)
2.	Declarations of interest in respect of items on the agenda.	
3.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.	



4. MTFFS Monitoring for the first Nine Months of 2015-16. (Pages 9 - 20)

Joint report of the Director and Consortium Treasurer.

5. Internal Audit Service - Progress against the 2015-16 Internal Audit Plan. (Pages 21 - 32)

Report of the Consortium Treasurer.

6. Date of next meeting.

The next meeting of the Subcommittee is due to be held on Monday 6 June 2016 at 11.00am at County Hall, Glenfield.

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

Exclusion of the public.

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

8. Forecast Outturn and Draft Medium Term Financial Strategy 2016/17 - 2019/20. (Pages 33 - 50)

Joint report of the Director and Consortium Treasurer.

Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Monday, 16 November 2015.

## PRESENT

Mr. I. Monson CC – Norfolk County Council (in the Chair)

Leicestershire County Council  
Mr. G. A. Hart CC

Lincolnshire County Council  
Mrs. S. Rawlins CC

20. Minutes of the meeting held on 8 September 2015.

The minutes of the meeting held on 8 September 2015 were taken as read, confirmed and signed.

21. Declarations of interest.

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.

22. Urgent items.

There were no urgent items for consideration.

23. MTFS Monitoring for the First Six Months of 2015-16.

The Subcommittee considered a joint report of the Director and Consortium Treasurer setting out the results of the first six months of trading in the 2015-16 financial year. A copy of the report, marked 'Agenda Item 4', is filed with these minutes.

Arising from discussion the following points were raised:-

- (i). Due to a decline in non-education store sales, total sales were behind budget by £1.1 million but had been offset by increased income from gas and rebates. Despite the decline in store sales, initial indicators suggested ESPO remained on target to achieve the £3.3 million surplus as outlined in the Medium Term Financial Strategy;
- (ii). Expenditure relating to agency usage was above budget due to staff vacancies and sickness absence. However this had been offset by lower expenditure in staffing due to a reduction in full time employees;
- (iii). During the financial year ESPO had invested a significant amount of officer time and resources into improving customer satisfaction, such as the use of the seasonal relief warehouse, and undertook a number of actions to improve warehouse efficiency. However it was anticipated that this level of investment into

customer satisfaction would not be required to maintain it into the future now that the appropriate measures had been identified and put in place;

- (iv). The costs in applying the school holiday discount and the Academy offer were incorporated into the margins. As such any discounting activity would be considered as part of the variable costs when managing peaks in demand;
- (v). Members expressed concern regarding the impact on ESPO of budget cut to local authorities. Officers had been looking at a range of initiatives to ensure that the £6 million surplus by 2018-19 remained achievable. However this would require a range of actions particularly due to the implementation of the National Living Wage on top of the agreed MTFS (minute 25 refers).

RESOLVED:

That the results of the first six months of trading for the 2015 financial year be noted.

#### 24. Review of the basis for calculating the Dividend Distribution.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the proposed revised methodology for calculating the dividend distribution. A copy of the report, marked 'Agenda Item 5', 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 which acknowledged the risk of membership, encouraged the use of ESPO services, and acknowledgement of the previous level of engagement with ESPO by each member authority;
- (iii). A number of models had been considered using a number of variables with the intention of finding a model which would minimise any financial 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, members were reassured that no member authority would receive less money should these changes be approved and implemented for the 2015/16 distribution, and ESPO achieved the increased surplus;
- (iv). The proposals as set out in the report were supported by the Subcommittee and commended officers for finding a new balanced method of calculation.

RESOLVED:

That the proposed new method of calculating the dividend distribution be recommended for approval by the Management Committee at its meeting in December.

25. Impact of the National Living Wage.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the potential impact of the National Living Wage on ESPO. A copy of the report, marked 'Agenda Item 6', 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 material risk for ESPO. In addition to the immediate wages risk, there was also a number of other variables which posed a risk such as the impact on school budgets and the resulting impact on their flexibility to purchase from ESPO. 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). Whilst the initial incremental increases would be incorporated into the growth outlined in the Medium Term Financial Strategy, ESPO would have to take a number of measures in the outer years of the Strategy to counter the impact of the National Living Wage in order to achieve the £6 million surplus.

RESOLVED:

That the contents of the report be noted.

26. Quarterly Progress against the Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer providing the latest quarterly update on progress against the Internal Audit Plan 2015/16. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The Subcommittee was advised that there had been no partial or high importance (HI) recommendations made on the completed audits so far. The previous HI recommendations from the audit of ICT applications – Optima Energy Software were being managed sufficiently enough to be signed off.

Although it was felt that the outstanding audit work remaining would be completed on time, officers from the Internal Audit Service would be closely liaising with the management staff at ESPO to ensure the timely completion of all audits by the end of the financial year. However it was noted that some audits could not be completed until a full year had passed. Some audit work was conducted on an ongoing basis throughout the year such as counter-fraud work.

RESOLVED:

That the quarterly progress against the Internal Audit Plan 2015/16 be noted.

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

The Subcommittee received a report of the Consortium Secretary outlining the proposed changes to the frequency of Subcommittee meetings. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

At the previous meeting of the Subcommittee it was felt that ESPO was in a much better position than when its present governance arrangements had been implemented. Owing to the increasingly stretched resources of the member authorities, it was hoped that reducing the number of meetings members needed to attend would contribute toward making these savings.

It was proposed that the number of Subcommittee meetings be reduced from four to two per year to coincide with key dates in the financial calendar. Should the proposals as outlined in the report be approved by the Management Committee, the new meeting cycle would be implemented in January 2016.

RESOLVED:

That the proposals as outlined in the report be recommended for approval at the Management Committee at its meeting in December.

28. Date of future meetings.

RESOLVED:

Subject to the change in frequency of meetings (minute 27 refers), it was noted that future meetings of the Subcommittee would take place on the following dates:

- 22 February 2016 – 11.00am at County Hall, Glenfield.
- 6 June 2016 - 11.00am at County Hall, Glenfield.
- 5 September 2016 - 11.00am at County Hall, Glenfield.
- 14 November 2016 - 11.00am at County Hall, Glenfield.

29. Exclusion of the public.

RESOLVED:

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

30. Strategic Discussion Document to Inform MTFS Assumptions.

The Subcommittee received a joint report of the Director and Consortium Treasurer outlining the assumptions being considered for the Medium Term Financial Strategy covering the period 2016 – 2020. A copy of the exempt report, marked 'Agenda Item 11', is filed with these minutes.

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

RESOLVED:

That the contents of the report be noted.

(THE MEETING RESUMED IN OPEN SESSION)

11.05 am - 12.55 pm  
16 November 2015

CHAIRMAN

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**ESPO FINANCE AND AUDIT SUB COMMITTEE – 22 FEBRUARY 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 Finance and Audit Subcommittee are updated quarterly on the financial performance of ESPO compared to budget and the targets set out in the four year Medium Term Financial Strategy.

**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
<b>SALES</b>			
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
<b>TOTAL SALES</b>	<b>64,527.0</b>	<b>69,287.7</b>	<b>65,947.5</b>

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 (MOD) 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	%
<b>Margin</b>						
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	
<b>TOTAL MARGIN</b>	<b>14,542.9</b>		<b>15,082.0</b>		<b>14,338.8</b>	

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	%
<b>EXPENDITURE</b>						
<b>EMPLOYEES</b>						
Staff	7,453.8		8,015.0		7,333.0	
Agency/Contract	889.3		711.0		1,122.6	
<b>Total</b>	<b>8,343.1</b>		<b>8,726.0</b>		<b>8,455.7</b>	
<b>OVERHEAD EXPENSES</b>						
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	
<b>Total</b>	<b>3,687.9</b>		<b>3,778.6</b>		<b>4,057.1</b>	
Finance and IT	647.4		690.2		666.2	
Directorate	77.6		26.4		110.6	
<b>Total</b>	<b>725.0</b>		<b>716.5</b>		<b>776.8</b>	
<b>Total</b>	<b>4,412.9</b>		<b>4,495.2</b>		<b>4,833.9</b>	
<b>TOTAL EXPENDITURE</b>	<b>12,756.0</b>	19.8%	<b>13,221.2</b>	19.1%	<b>13,289.6</b>	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 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:

YEAR TO DATE		
ACTUAL	BUDGET	PRIOR YEAR

EMPLOYEES NUMBERS (Full-time equivalents):			
Operations	187	194	197
Commercial	110	129	110
Finance, IT and Directorate	41	40	41
<b>TOTAL EMPLOYEES</b>	<b>337</b>	<b>364</b>	<b>348</b>

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.

### Surplus

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

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

#### Equal Opportunities Implications

31. None

#### Risk Assessment

32. None identified

**Officers to Contact**

Mr J Doherty – Director (Tel: 0116 265 7931)

Mr C Tambini – Treasurer to the Consortium (Tel: 0116 305 7831)

**Appendices**

Appendix 1: Service Line Analysis

Appendix 2: Balance Sheet and Cash Flow

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## SERVICE LINE INCOME AND EXPENDITURE SUMMARY

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
<b>Total Sales</b>	<b>32,683.3</b>	<b>14,645.7</b>	<b>13,782.1</b>	<b>3,416.0</b>	<b>64,527.1</b>
Less Cost of Sales	24,198	12,817	12,969	0	49,984
<b>Surplus on Trading Account</b>	<b>8,485.3</b>	<b>1,828.8</b>	<b>812.9</b>	<b>3,416.0</b>	<b>14,542.9</b>
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
<b>Operating Surplus</b>	<b>1,736.6</b>	<b>749.8</b>	<b>492.4</b>	<b>898.3</b>	<b>3,877.0</b>
%	5.3%	5.1%	3.6%	26.3%	6.0%
<u>Contribution to Central Costs</u>					
Finance and IT	602	402	67	268	1,339
Marketing	0	0	0	0	0
Directorate	233	233	45	240	751
<b>Net Surplus</b>	<b>901.2</b>	<b>115.2</b>	<b>380.4</b>	<b>390.1</b>	<b>1,786.9</b>
	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
<b>Total Sales</b>	<b>35,287.0</b>	<b>14,905.8</b>	<b>15,698.6</b>	<b>3,396.4</b>	<b>69,287.7</b>
Less Cost of Sales	25,993	13,191	15,022	0	54,206
<b>Surplus on Trading Account</b>	<b>9,294.2</b>	<b>1,714.8</b>	<b>676.6</b>	<b>3,396.4</b>	<b>15,082.0</b>
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
<b>Operating Surplus</b>	<b>2,484.9</b>	<b>540.0</b>	<b>319.3</b>	<b>655.1</b>	<b>3,999.2</b>
%	7.0%	3.6%	2.0%	19.3%	5.8%

Contribution to Central Costs

Finance and IT	647	431	72	287	1,437
Marketing	0	0	0	0	0
Directorate	217	217	42	224	701
Net Surplus	<b>1,620.7</b>	<b>(108.6)</b>	<b>205.4</b>	<b>143.2</b>	<b>1,860.8</b>
	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	<b>(2,603.6)</b>	<b>(260.0)</b>	<b>(1,916.5)</b>	<b>19.6</b>	<b>(4,760.6)</b>
Less Cost of Sales	(1,795)	(374)	(2,053)	0	(4,221)
Surplus on Trading Account	<b>(808.9)</b>	<b>113.9</b>	<b>136.3</b>	<b>19.6</b>	<b>(539.1)</b>

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 %	<b>(748.3)</b>	<b>209.8</b>	<b>173.1</b>	<b>243.2</b>	<b>(122.2)</b>

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	<b>(719.6)</b>	<b>223.8</b>	<b>175.0</b>	<b>246.9</b>	<b>(73.9)</b>

## EASTERN SHIRES PURCHASING ORGANISATION

## CONSOLIDATED MANAGEMENT BALANCE SHEET AS AT

Dec-15

31st March 2015

£	£	£	£
	<b>10,774,594.0</b>		<b>11,167,083.0</b>
5,392,376		4,897,251	
8,172,572		7,350,194	
1,360		810	
1,380,000		0	
	<b>14,946,308.0</b>		<b>12,248,255.0</b>
636,884		500,000	
11,504,765		7,997,072	
625,893		919,981	
-8,391,469	4,376,073	-7,835,926	1,581,127
	<b>10,570,235.0</b>		<b>10,667,128.0</b>
8,000,000			7,500,000
	<b>13,344,829.0</b>		<b>14,334,211.0</b>
11,222,789			11,265,791
2,122,042			3,068,421
	<b>13,344,831.0</b>		<b>14,334,212.0</b>
1.41			1.61
31.9			29.1
47.7			43.7

## Cash Flow from 01/4/2014 to

Dec-15

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

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## ESPO FINANCE AND AUDIT SUBCOMMITTEE – 22 FEBRUARY 2016

### INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2015-16 INTERNAL AUDIT PLAN

#### REPORT OF THE CONSORTIUM TREASURER

##### Purpose of the Report

1. To provide a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work to the Subcommittee and highlight any audits where high importance (HI) recommendations have been made and the position against implementing actions required.

##### Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. In accordance with ESPO's Financial Regulations Rule 15, specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference the Finance and Audit Subcommittee (the Subcommittee) should receive and review audit and governance reports. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.
3. The audits undertaken are based on the annual internal audit plan. Variations to the plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.

##### Summary of Progress

4. Audits completed (to at least the stage of draft report issued) between 1 November 2015 and 5 February 2016, are shown in **Appendix 1**. Where audits undertaken are an 'assurance' type i.e. the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e. the level of assurance that material risks are being managed. The sum of individual engagement opinions assists the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy of ESPO's control environment, comprised of its governance, risk management and internal control framework.

5. There are four levels of assurance: full; substantial; partial; and little. A report that has a high importance (HI) recommendation would not normally get an opinion above partial assurance. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.
6. There were no audits with HI recommendations or partial assurance opinions in this period.
7. **Appendix 2** summarises at 5 February 2016, the progress against 2015-16 audits and shows completed audits; those in progress and those not yet started. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress. Some audits are split into phases 'a' (assessment of control design) and 'b' (compliance that controls are being applied).
8. A summary of the position is: -
  - a. Over the last quarter a further 7 audits have been completed to at least draft report stage.
  - b. Of the 10 audits in progress, at 5 February 2016, at least 6 audits were close to being reported in draft with the remainder due by the end of February
  - c. Of the 6 audits 'not yet started', whilst 2 are scheduled as originally planned, 3 may need to be postponed and 1 might require cancelling. Explanations are recorded in Appendix 2. Decisions regarding those 4 jobs will be made when discussing the requirements of the 2016/17 internal audit plan with the Director and Consortium Treasurer.

### **Recommendation**

9. That the contents of the report be noted.

### **Equal Opportunities Implications**

10. There are no discernible equal opportunities implications resulting from the audits listed.

### **Background Papers**

Report to ESPO Management Committee on 27 September 2012 – Finance and Audit Subcommittee – Proposed terms of reference and indicative work plan  
<http://ow.ly/Rlh1Q>

Report to ESPO Finance and Audit Subcommittee 9 June 2015 – Annual Internal Audit Plan  
<http://ow.ly/RlhBs>

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**Appendices**

Appendix 1 – Audits completed (to at least draft report issued) as at 5 February 2016

Appendix 2 – Summary progress against 2015-16 audits as at 5 February 2016

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**Audits completed as at 5 February 2016**

**Appendix 1**

<b>Audit Name</b>	<b>Final Report Issued (or position @ 5/2/16)</b>	<b>Audit Opinion</b>	<b>HI Rec</b>
Servicing Authority	Draft issued 5/2/16	Substantial Assurance	No
Public Contract Regulations	Draft issued 13/11/15	Substantial Assurance	No
Annual Governance Statement 15/16	12/01/16	No opinion	No
Risk Management 15/16	Final 2/2/16	Substantial Assurance	No
Business Strategy/Transformation	Provisional draft issued	Substantial Assurance	No
Transparency	Findings issued	No opinion	No
Counter Fraud - NFI specific	Complete	No opinion	No
Counter Fraud	Complete	No opinion	No
ICT applications – Aurora upgrade	Stage 1 complete	No opinion	No

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Summary progress against 2015-16 audits as at 5<sup>th</sup> February 2016Audits 'completed'

<u>Ref<sup>1</sup></u>	<u>Type<sup>2</sup></u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 5 February 2016</u>
16/1a	GO	Annual governance statement 2014/15	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Completed
16/2	GO	Business Strategy/Transformation	Attainment of the objectives of the Strategy is well governed - follow up work commissioned from Transformation Unit	Provisional draft issued to operational risk managers. Substantial assurance expected. Measured against good practice. Recommendations to be discussed and agreed so that are commensurate with the risks to the projects
16/7a	RM	Risk management	Recommendations from 2014-15 are implemented	Completed – substantial assurance
16/7b	RM	Risk management	Limited testing on ESPO's 2015-16 risk processes	Completed – substantial assurance
16/8	GO	Transparency	Comparison against other purchasing organisations' transparency on websites.	Draft findings sent to Director and Consortium Treasurer and Secretary in order to reach agreement on any development required
16/11	RM	Counter Fraud - NFI specific	Interpretation and investigation of outputs	Complete. No fraudulent matches found. Recommendation to improve data quality for future exercises and to decide if there is appetite to review any potential matches that were below NFI's recommended investigation limit threshold

16/12	RM	Counter Fraud	Systems and procedures are sufficiently robust to mitigate the risk of fraudulent or irregular activity	Proactive guidance issued e.g. managing the risk of procurement fraud and fraud alerts, also tools shared (e:learning on fraud). Some time was also used to investigate anomalies in the NFI duplicate payment report due to the data quality issue detailed immediately above
16/13a	RM	ICT applications - Optima Energy Software	To confirm prior year High Importance (HI) recommendations have been progressed	Completed – progressed.  The ICT Auditor will continue to monitor the implementation through to business as usual
16/13b	RM	ICT applications – Aurora upgrade	The Aurora upgrade due in 2016 is adequately planned	Completed for 2015-16. Project documentation reviewed in order to evaluate timing of audit involvement in 2016-17.
16/14a	RM	Procurement & Compliance Risk Management	The framework is sufficiently robust to prove effectiveness and avoid liability.	Draft issued. Audit focused on how ESPO planned for and implemented the PCR 2015 transition.
16/20	IC	Servicing authority	The servicing authority is providing service in line with the agreement	Draft report issued – substantial assurance expected.

**Audits in progress**

<b><u>Ref</u></b>	<b><u>Type</u></b>	<b><u>Audit title</u></b>	<b><u>Assurance objective</u></b>	<b><u>Position @ 5 February 2016</u></b>
16/4	GO	Governance framework	The requirements of the Consortium Agreement, Constitution and appropriate schedules are embedded - to include role of Servicing Authority and potentially a review of the effectiveness of Committees	Work commenced.
16/5	GO	Information management	The Payment Card Industry requirements are complied with	Testing complete. Draft in preparation.
16/6	GO	Management Information - Profitability of Framework Agreements	Strategic & operational decision making (e.g. to develop or end frameworks) is based on good quality information	In progress – due to test robustness of ESPO information provided.
16/9	RM	Business Strategy/Transformation – individual projects	Control design (of specific project(s)) is adequate to mitigate risk	Work completed. Draft imminent.
16/10	RM	Customer satisfaction	The risks of customer loss are identified and mitigated	Testing completed. Management review of testing currently taking place.
16/16	IC	BACS	Access is controlled and transactions are validated	Debits testing complete. Credits testing planned for w/c 8/2.
16/17	IC	Distribute Surplus - Design	The design and security of the revised financial model is robust	Work complete. Draft imminent.
16/18	IC	General ledger reconciliations <sup>3</sup>	Reconciliations are undertaken to facilitate the accuracy and completeness of the general ledger. Usual coverage of cash & treasury; receivables; payables; payroll and stock	Work complete. Management reviewing.

16/19	IC	IT general controls <sup>3</sup>	Controls expected by the External Auditor are well designed and consistently applied.	Testing complete. Draft in preparation.
16/20	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated	Information provided and testing underway.

**Audits not yet started**

<b><u>Ref</u></b>	<b><u>Type</u></b>	<b><u>Audit title</u></b>	<b><u>Assurance objective</u></b>	<b><u>Position @ 5 February 2016</u></b>
16/1b	GO	Annual governance statement 2015-16	Compliance to the principles of good governance is demonstrated - to include any framework revisions planned by CIPFA	Guidance given to Technical Accountant who is taking on the compilation role. Audit work on the approach scheduled for late quarter 4.
16/3	GO	Control environment	The obligations of the revised Accounts and Audit Regulations (April 2015) to have a sound system of internal control are met	Potential postponement due to more time needed on other audits
16/14b	RM	Procurement & Compliance Risk Management	ESPO's adherence to The Public Contracts Regulations 2015	Delayed due to clearance of part A (framework). Agreement will be reached with the Deputy Director whether to test part B (compliance) in the last quarter or at the beginning of 2016/17.
16/15	IC	Warehousing	The temporary warehouse arrangements are adequately managed to attain vfm, avoid stock losses and avoid liability	Potential cancellation – awaiting decision on future arrangements for managing 'peak' given recent improvements to ESPO warehouse.
16/21	IC	Trading performance <sup>3</sup>	The trading results provided by ESPO, both for internal use and reported to the Management Committee, are in the general ledger	Scheduled w/c 22 February
16/22	IC	Vehicle & Fleet operating costs	Revised arrangements are monitored and securing vfm	Potential postponement - to enable data to be available for the new fleet & associated telematics reporting (only went live in Feb.)

<sup>1</sup>unique reference numbers based on the financial year in question (i.e. '16' relates to 2015-16), in the sequence of the approved internal audit plan

<sup>2</sup> the three elements of the control environment (governance, risk management and internal control)

<sup>3</sup> traditionally audits where the external auditor has placed reliance on the work of internal audit.

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