



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:	21/06/22
My Ref	CT/ESPO
Please ask for:	Cat Tuohy
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To: Members of the ESPO Management Committee

Dear Member,

ESPO MANAGEMENT COMMITTEE

A meeting of the Management Committee will be held on Wednesday, 29 June 2022 at 10.30 am in the Sparkenhoe 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,

Cat Tuohy
for Consortium Secretary

AGENDA

<u>Item</u>	<u>Report by</u>
1. Appointment of Chairman.	
2. Chairman's Announcements.	
3. Election of Vice-Chairman.	
4. Minutes of the meeting held on 16 March 2022.	(Pages 3 - 8)
5. To advise of any items that the Chairman has decided to take as urgent elsewhere on the agenda.	

6. Declarations of interests in respect of items on this agenda.
7. Items referred by the Finance and Audit Subcommittee.

There are no specific items referred. The issues considered by the Subcommittee are covered in items 10 and 14 which appear elsewhere on the agenda.

- | | | | |
|-----|---|-----------------------------------|-------------------|
| 8. | External Audit of the 2020/21 Financial Statements. | Director and Consortium Treasurer | (Pages 9 - 72) |
| | Avtar Sohal, the Grant Thornton Audit Director will be in attendance for this item. | | |
| 9. | 2020/21 Financial Statements and Annual Governance Statement | Consortium Treasurer | (Pages 73 - 120) |
| 10. | Internal Audit Service - Annual Report 2021-22. | Consortium Treasurer | (Pages 121 - 156) |
| 11. | Director's Progress update. | Director | (Pages 157 - 170) |
| 12. | Exclusion of Press and Public. | | |
| 13. | Directors Supplementary Information. | Director | (Pages 171 - 186) |
| 14. | Outturn 2021-22. | Director and Consortium Treasurer | (Pages 187 - 198) |
| 15. | Project Update on ESPO Warehouse Extension. | Director | (Pages 199 - 204) |
| 16. | ESPO.org one year on. | Director | (Pages 205 - 212) |

There will be a presentation for this item.

17. Date of Next Meeting.

The next meeting of the Committee is scheduled to take place on 14 September at 10.30am at Leicestershire County Hall.

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



Minutes of a meeting of the ESPO Management Committee held at County Hall, Glenfield on Wednesday, 16 March 2022.

PRESENT

Leicestershire County Council

Mr. R. Shepherd CC
Dr. R. K. A. Feltham CC

Lincolnshire County Council

Cllr. A. Hagues
Cllr S. Rawlins

Peterborough City Council

Cllr. A. Coles
Cllr W. Fitzgerald

Warwickshire County Council

Cllr Watson

Norfolk County Council

Cllr. A. Birmingham

Cambridgeshire County Council

Cllr Goodliffe
Cllr S. Ferguson

Apologies

Apologies were received from the Chairman, Cllr. P. Butlin (Warwickshire County Council) and Cllr. S. Clancy (Norfolk County Council)

ESPO

Kristian Smith - Director
David Godsell – Assistant Director
Maurice Campbell – Assistant Director
Matt Selwyn Smith – Assistant Director
David Goodacre – Financial Controller

Leicestershire County Council

John Sinnott – Consortium Secretary
Declan Keegan – Assistant Director Corporate Resources on behalf of Consortium Treasurer
Neil Jones – Head of Internal Audit
Matt Davis – Internal Audit Manager
Mo Seedat – Head of Democratic Services
Cat Tuohy – Democratic Services Officer

44. Election of Chairman for this meeting.

It was agreed that Cllr. M. Watson be appointed Chairman for the meeting.
Cllr. M. Watson in the Chair

45. Minutes.

The minutes of the meeting held on 24 November 2021 were taken as read, confirmed, and signed.

Members noted that as agreed at the November meeting the dividend payments had been made to the constituent authorities at the beginning of December.

46. Urgent Items.

There were no urgent items for consideration.

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

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

No declarations were made.

48. Items referred by the Finance and Audit Subcommittee.

The Chairman informed the Committee that there were two items referred and recommended for approval by the Finance and Audit Subcommittee, covered in Agenda Item 6, the Annual Internal Audit Plan 2022-23 and Agenda Item 12, the Budget 2022-23.

49. Annual Internal Audit Plan 2022-23.

The Committee received a report of the Consortium Treasurer on the Annual Internal Audit Plan 2022-23. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Committee noted that the ESPO Senior Management Team met regularly with the Consortium Treasurer and the Head of Internal Audit at Leicestershire County Council to review the findings of its audits. Members were assured that any high assurance recommendations would be shared with them and reported to the Management Committee.

The Committee was advised that the Finance and Audit Subcommittee had considered the report at its meeting on 2 February and supported approval of the Plan.

Arising from the discussion the following points were raised:-

- i. The Internal Audit Plan included contingency to consider any special projects or emerging issues such as the volatility of the energy market if required.
- ii. There had been delays in the introduction of new procurement rules by Government. Future audit plans would monitor the introduction and subsequent implementation.

RESOLVED:

That the ESPO Internal Audit Plan for 2022-23 be approved.

50. Director's Progress update.

The Management Committee gave consideration to a report of the Director which provided an update of the actions and progress made since the previous ESPO Management Committee held on 24 November 2021. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

[Please note a minor amount of information included in Appendix B to the Director's Progress Update, in error, has been removed from the originally published version]

The Director informed the Committee that ESPO currently retained 96.1% of items held at the Grove Park Warehouse.

Arising from the discussion the following points were noted:

- i. Suppliers had until December 2022 to conform to United Kingdom Conformity Assessed marking for goods placed on the market in Great Britain. ESPO would continue to monitor the situation and work with suppliers accordingly.
- ii. The combined effect of COVID, inflation and the delayed Local Government pay award had affected retention of staff across the industry and within local government. The position was being monitored closely by the Senior Management Team.
- iii. In relation to the risk regarding increased competition the Director assured the Committee that officers kept a close eye on developments in the market and with competitors and continue to review ESPO's offering. Furthermore, officers would continue to update the risk register where applicable to address new pressures.

RESOLVED:

That the report be noted.

51. Date of Next Meeting.

It was noted that the next meeting of the Committee would be held on 29 June 2022 at Leicestershire County Hall.

52. Exclusion of the Press and Public.

RESOLVED:

That under Section 100 (A) (iv) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that it will involve the disclosure of exempt information as defined in the Act and that in all of the circumstances the public interest in maintaining the exception outweighs the public interest in disclosing the information.

53. 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 11', is filed with these minutes.

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

The Committee noted that the Local Government Pay Award for 2021/22 had just been agreed and together with high levels of inflation would have an effect on its profit and loss statement. Despite this ESPO expected to deliver a surplus of circa £5.6million.

With ESPO's energy supplier, it was noted that ESPO was hedged up to 24 months on a rolling basis, which shielded current customers. Continued high wholesale energy prices, however, would eventually impact pricing. The Committee were assured that the Energy Team were working closely with customers to manage expectations and ensure they were well aware of the circumstances.

RESOLVED:

That the report be noted.

54. Budget 2022/23.

The Committee considered an exempt joint report of the Director and Consortium Treasurer concerning the Budget 2022-23. A copy of the report, marked 'Agenda Item 12', 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).

Arising from the discussion the following points arose:-

- i. Members recognised the ongoing challenge inflation posed to ESPO and businesses generally, which continued to be monitored as a key risk.
- ii. Additional budgeted IT spend included Cyber Essentials plus, a government backed scheme to ensure ESPO was protected against cyber-attacks, and provide assurance to companies that worked with ESPO.
- iii. The Director agreed to report to the Committee at a future meeting on environmental issues and what actions ESPO is undertaking and planning in relation to sustainability and the green agenda.

RESOLVED:

That the report be noted.

55. Public Procurement Rules - Developments during 2021

The Committee considered an exempt joint report of the Director, the purpose of which was to set out an update to Public Procurement Rules. A copy of the report, marked 'Agenda Item 13', 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).

The Committee noted the proposed changes to public procurement rules and the transparency provisions in Government's plans would have resourcing implications for ESPO and the sector. Members were assured the Senior Leadership Team would continue to monitor risks, progress plans to ensure compliance and to develop a continuous improvement programme.

RESOLVED

That the report be noted.

10.30 - 11.50 am
16 March 2022

CHAIRMAN

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MANAGEMENT COMMITTEE – 29 JUNE 2022
EXTERNAL AUDIT OF THE 2020/21 FINANCIAL STATEMENTS
JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER

Purpose of Report

1. To report the key findings from the external audit of the 2020/21 financial statements

Background

2. Most local government and private companies (or a certain size) are required by law to have an annual audit by external chartered accountants. The auditors will normally confirm that the information in the financial statements give a 'true and fair' view and are not materially wrong, and/or they may draw attention to anything in the financial statements that they are required to.
3. ESPO, as a joint committee set up under Section 102 of the 1972 Local Government Act, is not legally required to have an audit. However, there are significant benefits to undertaking one as it gives a level of independent assurance to various stakeholders (the public, Management Committee, HMRC, banks, staff etc) over our financial statements and it supports our wider governance arrangements.
4. Grant Thornton (GT) are ESPO's auditors for 2020/21, with this being their second year. A copy of the auditor's report is attached as Appendix 1 to this report.
5. As set out in the report, GT propose to certify the 2020/21 financial statements with a 'qualified' opinion. (Normally you would want an 'unqualified' opinion). This directly follows the 2019/20 qualified opinion and is due to the same reason, being that Grant Thornton were unable to attend the stocktake on 31 March 2020. (Unfortunately, this affects both the 19/20 and the 20/21 Financial Statements). This was due to the national lockdown arising from the Covid-19 pandemic and was mutually agreed in the interest of safety of colleagues in both teams amidst the significant uncertainty over the pandemic at that time. The stocktake was attended as normal on 31 March 2021 with no issues being identified.
6. Except for this issue, GT are of the opinion that the financial statements give a true and fair view. No material adjustments (corrected or uncorrected), errors, internal control weaknesses or other issues are identified.

7. Included in Appendix 2 is the draft letter of representation from the Consortium Treasurer which is required by the auditors before issuing their formal audit opinion.
8. For completeness, appendices 3 and 4 contain details of the audit plan and the risk assessment undertaken by GT.
9. Avtar Sohal, the Grant Thornton audit director who is responsible for the audit, will attend the Committee meeting on the 29 June 2022 to communicate any significant findings and answer any questions.
10. The 2020/21 financial statements are presented to the Management Committee for approval elsewhere on the agenda for this meeting.

Recommendation

11. The Committee is asked to approve the external audit of the financial statements 2020/21.

Equal Opportunities Implications

12. None

Officer to Contact

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0116 265 7931

Chris Tambini, Consortium Treasurer
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0116 305 7831

Appendices

Appendix 1 – The audit findings for ESPO - Report to those charged with governance on the audit for the year ended 31 March 2021 (ISA 260 (UK&I))

Appendix 2 – Draft letter of representation from the Consortium Treasurer to the auditors

Appendix 3 – The audit plan for ESPO for the year ended 31 March 2021

Appendix 4 – Informing the audit risk assessment for the year ended 31 March 2021



The Audit Findings for Eastern Shires Purchasing Organisation

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2021

10 June 2022

Avtar Sohal

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Senior Audit Manager

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Grant Thornton at a glance

Grant Thornton International Ltd

- Fee income \$5 billion
- Over 135 countries
- Over 55,000 people
- Global methodologies, strategy, global brand, global values – consistent global service



FTSE 100 are
non-audit clients

51%



People
worldwide

58,000



Independent nominated
advisor of AiM

No.1

UK offices (+
Cayman and British
Virgin Islands)

27



Largest auditor, UK's
top privately-held
companies

6th



Member firms of
Grant Thornton
International Ltd

135



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DRAFT

Private and Confidential

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T 0121 212 4000
www.grantthornton.co.uk

Dear Sirs

Audit Findings for Eastern Shires Purchasing Organisation for the year ended 31 March 2021

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at www.grantthornton.co.uk/en/about-us/leadership-and-governance/transparency-report/

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Avtar Sohal
 Director
 For Grant Thornton UK LLP

Chartered Accountants

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Status of the audit

Our work is substantially complete. As for 2019/20 we will issue a limitation of scope in the audit opinion in relation to assurances over the quantity of inventories held at 31 March 2020.

Due to the national lockdown arising from the Covid-19 pandemic we did not observe the counting of physical inventories at the 31 March 2020, and so were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities held at this date. As reported to you last year, this led to us issuing a limitation of scope in our 2019/20 audit opinion.

For the 2020/21 financial year this further meant that we do not have sufficient appropriate audit evidence regarding the opening inventory quantities held at 31 March 2020, which impacts on the results reported in the 2020/21 financial statements. Consequently we will also need to issue a limitation of scope in our 2020/21 audit opinion.

However, this is not unusual for any audits for which auditors were unable to attend stock takes at March 2020 due to the national lockdown. We did attend stock takes at 31 March 2021 with no issues and so going forward this issue has been addressed.

From the testing carried out on all other areas, we are satisfied that the financial statements are free from material misstatement.

In other respects our work is complete other than:

- Final post balance sheet event review
- Receipt of the Letter of Representation.

We anticipate all these areas will be cleared ahead of the Management Committee meeting on 28 June 2022.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We detail in the table below our determination of materiality for ESPO.

	ESPO Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,589,000	We determined materiality for the audit of ESPO's financial statements as a whole to be £1,589,000, which is approximately 2% of ESPO's total income. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in the levels of income available to ESPO to expend in furtherance of its objectives.
Performance materiality	1,112,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 70% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none">• We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment• There has however, been some adjustments to the financial statements in the prior year, which has reduced the threshold that we might otherwise have applied.
Trivial matters	80,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £80,000, which is 5% of materiality.

Observations in respect of significant risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue

Auditor commentary

We have:

- evaluated the Joint Committee's accounting policy for recognition of Invoiced Turnover for appropriateness;
- gain an understanding of the Joint Committee's system for accounting for income, evaluate the design of the associated controls and observe them in operation;
- Tested any manual adjustments made to revenue recorded
- Undertaken a predictive analytical review of revenue recorded based on prior and current year margins
- Agree, on a sample basis amounts recognised as income in the financial statements to ensure that accurately accounted for in line with accounting policies, that income is appropriately recognised and that there is appropriate evidence of receipt of funds.

No issues arose which we need to bring to your attention.

2

Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.




No issues arose which we need to bring to your attention.

17

Observations in respect of significant risks (continued)

Risks identified in our Audit Plan	Commentary
<div data-bbox="72 319 103 357">3</div> <div data-bbox="140 319 613 344">Valuation of the net pension fund liability</div> <ul style="list-style-type: none"> The Joint Committee's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£27 million in the Joint Committee's balance sheet at 31 March 2021, increased from £16.6m at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. 	<div data-bbox="731 319 965 344">Auditor commentary</div> <p>We have:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; assessed the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report Reviewed key movements in the asset and liability figures in 2020/21 and sought supporting evidence and explanations. <p>No issues arose which we need to bring to your attention.</p>

Other findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Revenue from the sales of goods is recognised when ESPO satisfies the performance obligation to its customers on delivery and it is likely that economic benefits associated with the transaction will flow to ESPO. ESPO has standard payment terms agreed with its customers.</p> <p>Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO.</p> <p>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.</p>	<p>We have considered the:</p> <ul style="list-style-type: none"> • Appropriateness of the accounting policy under relevant accounting framework • Adequacy of disclosure of each accounting policy <p>We are satisfied that the application of revenue recognition is consistent with the disclosed policies.</p> <p>We have noted that ESPO do not accrue for gas revenue based on the financial period of 1st April 2020 to 31 March 2021, but have charged the 12 months of revenue from 1 March 2020 to 28 February 21, we are satisfied that this will not result in a material misstatement as 12 months of revenue is charged each year.</p>	<p>Green</p> 
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Valuation of property plant and equipment • Pension liability 	<p>We have considered the:</p> <ul style="list-style-type: none"> • Appropriateness of policy under relevant accounting framework • Extent of judgement involved • Potential financial statement impact of different assumptions • Adequacy of disclosure of accounting policy <p>We noted that ESPO do not depreciate buildings as they are revalued on an annual basis. We consider that under FRS 102 depreciation should still be applied to buildings even where they are revalued, and have noted this as an uncorrected misstatement on page 12. This would have no impact on total comprehensive income.</p>	<p>Green</p> 
Other accounting policies	<p>Policies have been disclosed within Note 3 of the financial statements.</p>	<p>We have reviewed ESPO's policies against the requirements of UK GAAP FRS102 and have concluded that they are appropriate an in line with their requirements.</p>	<p>Green</p> 

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none">We have not been made aware of any instances of frauds but we would ask the Management Committee to notify us if they are aware of any such incidences.
2	Matters in relation to related parties	<ul style="list-style-type: none">We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none">You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none">A letter of representation has been requested from ESPO.
5	Confirmation requests from third parties	<ul style="list-style-type: none">We requested from management permission to send confirmation requests to those organisations with which it banks. Permission was granted and positive confirmations have been received for the requests sent.
6	Disclosures	<ul style="list-style-type: none">No significant disclosure amendments have been made to the financial statements. A small number of minor amendments were made to improve clarity for the reader.
7	Audit evidence and explanations	<ul style="list-style-type: none">All audit evidence has been obtained and sufficient explanations received where required.
8	Internal control	<ul style="list-style-type: none">No internal control issues have been identified in our audit work which we wish to bring to your attention.
9	Other information	<ul style="list-style-type: none">We are required to give an opinion on whether the other information published together with the audited financial statements is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.

Adjusted misstatements

Detail	Income Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Reclassification of interest costs from admin expenses	Dr expenditure – interest costs – 103 Cr expenditure – admin expenses - 103	nil	The error value is not material and has no impact on net assets or total comprehensive income.
Overall impact to 20/21	Nil	nil	

21

Disclosure adjustments	Detail of amendment made
Related parties	Updated to correct presentational errors regarding year end balances with Norfolk County Council and Cambridgeshire County Council.
Audit fees	Amendment to correct figure disclosed

Unadjusted misstatements

Detail	Income Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Application of depreciation to revalued buildings	Dr expenditure – depreciation – 155 Cr revaluation movement - 155	nil	The error value is not material and has no impact on net assets or total comprehensive income.
Overall impact to 20/21	Nil	nil	

Impact of unadjusted misstatements in the prior year

Prior year unadjusted misstatements related to a cut off issue between 2018/19 and 2019/20, and so would have no impact on the 2020/21 financial statements.

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, and managers). In this context, we disclose the following to you:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view apart from the matters detailed below. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- As a firm we have been awarded some audit work for other bodies based on ESPO framework contracts where we have to pay a levy. The total levies paid to ESPO in the period 1 January 2021 to 31 December 2021 was £6,450.01. We do not deem these amounts to be material to either the firm or ESPO, and we do not deem the use of these framework contracts to impact our independence to deliver the external audit for ESPO.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to ESPO. No non-audit services were identified.

Fees

We confirm below our final fees charged for the audit..

	2020/21 Planned fee	2020/21 Final fee
ESPO Audit fee 2020/21	£32,000	£32,000
Total audit fees (excluding VAT)	£32,000	£32,000

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

Appendices

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

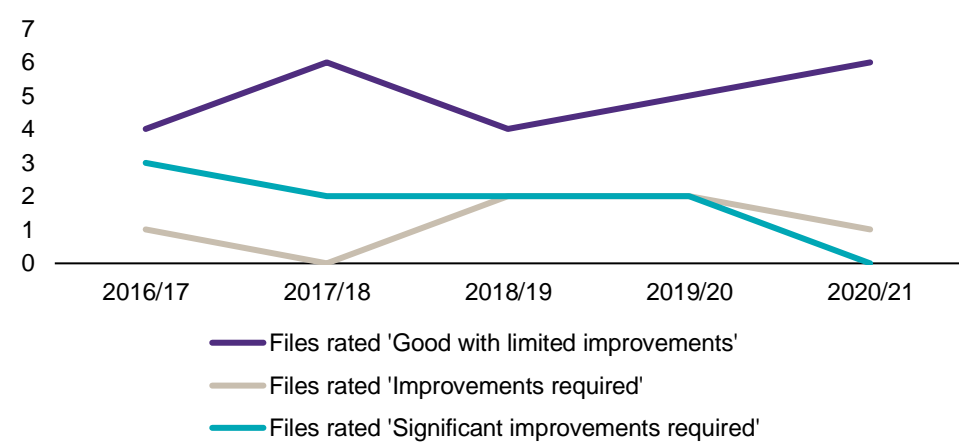
What has the FRC said about us?

- The FRC has published the findings of its annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continual improvement in audit quality.
- All of the major audit firms go through an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.
- Two years ago we implemented our Audit Investment Plan (AIP), which sets out measures to enhance governance of the audit practice. These measures include:
 - establishing an Audit Quality Board to hold the firm's leadership accountable on audit quality matters. This Board includes, amongst others, Fiona Baldwin, Head of Audit and Philip Johnson as Independent Chair
 - commissioning an independent review of our audit function. The review scrutinised our audit approach and made recommendations for further change and improvement, which we have integrated into our audit strategy
 - addressing the issues raised by the FRC through performing root cause analysis and using the results of that analysis to implement updated policies and procedures.

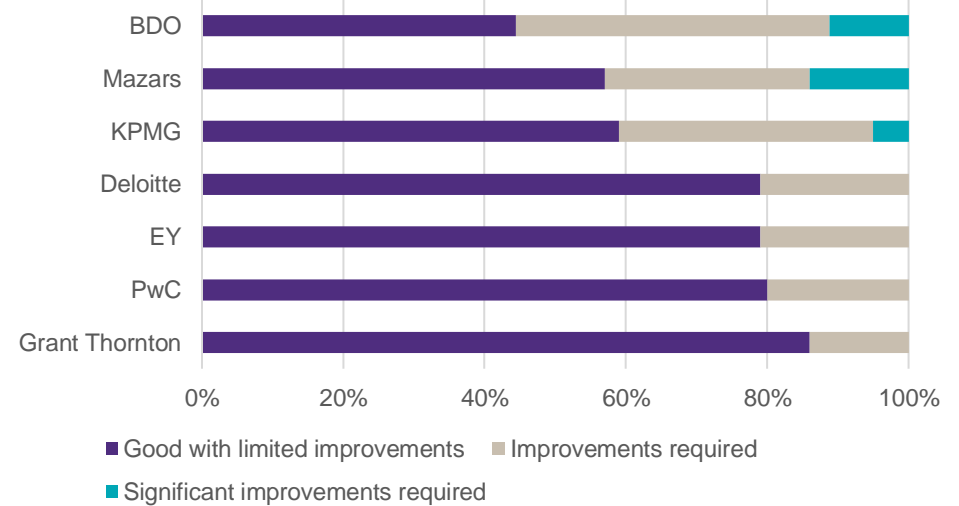
Our results

- The results of the FRC's reviews of our commercial audits have improved as have the reviews performed in the year by the ICAEW. No files have been graded as requiring significant improvement by the FRC. This is encouraging progress following the implementation of the AIP. The success of the changes made to our approach under the AIP is demonstrated by the improvement of the AQR results, as illustrated in the graphs opposite.

Grant Thornton UK AQR results



UK firms AQR results compared



Significant improvements from the Financial Reporting Council's (FRC) quality inspection (continued)

Continued commitment to audit quality

- We remain fully committed to improving audit quality and we will continue to:
 - challenge management in areas that are complex, significant or highly judgmental, for example, certain accounting estimates, going concern evaluations, revenue recognition and other such areas
 - invest in technology to produce high quality audits more efficiently through a suite of technology solutions
 - plan for a smooth audit that is delivered to an appropriate timetable to achieve a high quality audit
 - work proactively with you to address matters identified during the course of the audit and, where appropriate, will seek to bring forward work to earlier in the year, particularly on complex areas such as acquisitions etc
- In conjunction with our implementation of the new standards on quality management, we intend to expand and develop our root cause analyses and will be implementing necessary responses as part of our commitment to continual improvement.



Grant Thornton UK LLP
The Colmore Building,
20 Colmore Circus
Birmingham B4 6AT

29 June 2022

Dear Sirs/Madams

Eastern Shires Purchasing Organisation

Financial statements for the year ended 31 March 2021.

This representation letter is provided in connection with the audit of the financial statements of Eastern Shire Purchasing Organisation, ('ESPO'), (the 'Joint Committee'), for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('United Kingdom Generally Accepted Accounting Practice').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial statements

- i We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 12 March 2020, for the preparation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice; in particular the financial statements give a true and fair view in accordance therewith.
- ii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iii The methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.
- iv Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice.
- v All events subsequent to the date of the financial statements and for which United Kingdom Generally Accepted Accounting Practice requires adjustment or disclosure have been adjusted or disclosed.
- vi We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, included in the audit findings report, as they are immaterial to the results of ESPO and its financial position at the year end. The financial statements are free of material misstatements, including omissions.

- vii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice.
- viii We have completed the transition from CIPFA Code of Practice to UK GAAP FRS102, and have ensured that the restatement of prior period balances are free from material misstatement, and based on the general ledger records held by ESPO.

Information provided

- ix We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of your audit; and
 - c. Unrestricted access to persons within ESPO from whom you determined it necessary to obtain audit evidence.
- x All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xi We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the joint committee and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the financial statements.
- xiii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the joint committee's financial statements communicated by employees, former employees, analysts, regulators or others.
- xiv We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xv We have disclosed to you the identity of the joint committee's related parties and all the related party relationships and transactions of which we are aware.
- xvi We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Yours faithfully

Chris Tambini,
Consortium Treasurer



The Audit Plan for ESPO (Eastern Shires Purchasing Organisation)

Year ending 31 March 2021

February 2022

Avtar Sohal

Director

T 0121 232 5420

E avtar.s.sohal@uk.gt.com

Andy Reid

Senior Manager

T 0121 232 5428

E andy.s.reid@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

- This document provides an overview of the planned scope and timing of the statutory audit of ESPO Joint Committee ('the Joint Committee') for those charged with governance.

Scope of our audit

We are responsible for forming and expressing an opinion on the Joint Committee's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee)

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Joint Committee's business and is risk based. The significant risks identified for the 2020/21 audit and our proposed approach are set out in the table below and in further detail later in this document.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue recognition
- Management override of controls
- Valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report on completion of our work.

Materiality

We have determined planning materiality to be £1.6m for the Joint Committee, which equates to 2% of your forecasted gross revenue revenue for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.08m (PY £0.086m). Further details of our approach to materiality are outlined at page 8.

Audit logistics

Our 2020/21 audit work will take place between January and March 2022. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is outlined overleaf.

We have agreed a base fee of £32,000.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Further work planned
The revenue cycle includes fraudulent transactions (Invoiced Turnover)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For ESPO Joint Committee we have concluded that the greatest risk of material misstatement relates manual adjustments to revenue recorded in the financial statements. We have therefore identified the occurrence and accuracy of income adjustments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Joint Committee's accounting policy for recognition of Invoiced Turnover for appropriateness; • gain an understanding of the Joint Committee's system for accounting for income, evaluate the design of the associated controls and observe them in operation; • Test, on a sample basis, any manual adjustments made to revenue recorded • Agree, on a sample basis amounts recognised as income in the financial statements to ensure that accurately accounted for in line with accounting policies, that income is appropriately recognised and that there is appropriate evidence of receipt of funds.
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Joint Committee faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Significant risk	Description	Further work planned
Valuation of the pension fund net liability	<p>The Joint Committee's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£16.6 million in the Joint Committee's balance sheet at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Joint Committee's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation; • assess the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Leicestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other matters

Other work

- We read your Director's Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.

Other material balances and transactions

- Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

- As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Joint Committee's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

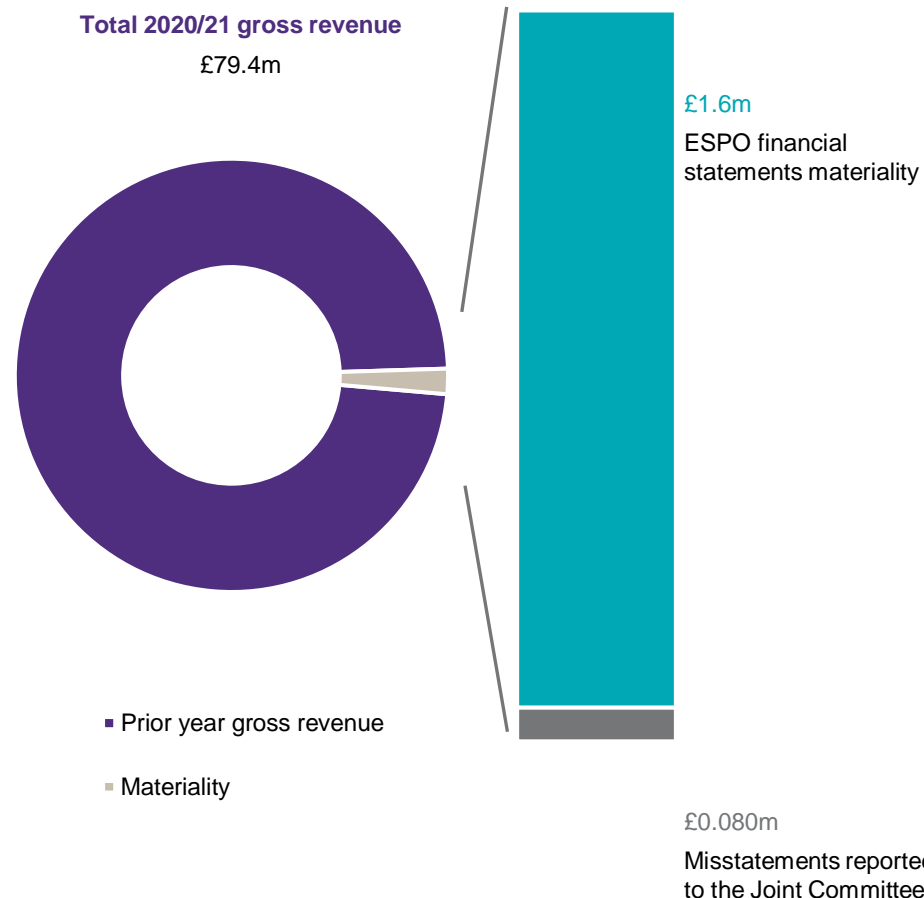
We have determined financial statement materiality based on a proportion of the gross revenue of the Joint Committee for the financial year. Materiality at the planning stage of our audit is £1.6 million, which equates to 2% of your forecasted gross revenue for the year. We design our procedures to detect errors in specific accounts at a lower level of precision. Accordingly, senior officer remuneration materiality has been reduced to £20,000 due to its sensitive nature and public interest.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

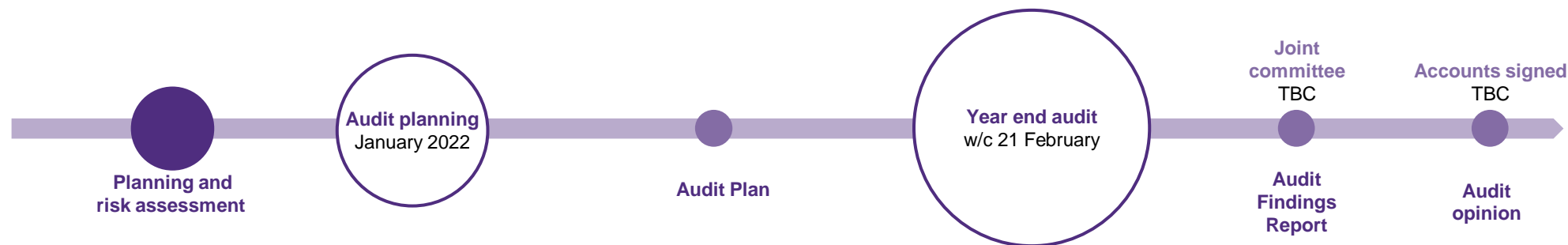
Matters we will report to the Joint Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Joint Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of ESPO, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £80,000.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Joint Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Avtar Sohal, Engagement Lead

Avtar will be the main point of contact for the Chair, Director and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Avtar will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit.



Andy Reid, Senior Audit Manager

Andy will work with the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Audit Committee with Avtar, and supervise the on-site audit team. Andy will undertake reviews of the team's work and draft clear, concise and understandable reports.

Audit fees

- The planned audit fees are £32,000 for the financial statements audit completed in line with the terms of our engagement. In setting your fee, we have assumed that the scope of the audit, and the Joint Committee and its activities, do not significantly change.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- supply supporting schedules to all figures in the accounts by the agreed dates and in accordance with the agreed upon information request list
- make all appropriate staff available during the period of the audit to help locate information and to provide explanations.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff and that you are kept informed of progress during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Fees and independence

Fees

	£
Joint Committee audit for 2020/21	32,000
Total	32,000

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Joint Committee and its activities have not changed significantly
- The Joint Committee will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Please note that as a firm we have been awarded some audit work for other bodies based on ESPO framework contracts where we have to pay a levy. The total levies paid to ESPO in the period 1 January 2021 to 31 December 2021 was £6,450.01. We do not deem these amounts to be material to either the firm or ESPO, and we do not deem the use of these framework contracts to impact our independence to deliver the external audit for ESPO.

Communication of audit matters with those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.



Informing the audit risk assessment for Eastern Shires Purchasing Organisation 2020/21



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Eastern Shires Purchasing Organisation's external auditors and ESPO's Management Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Management Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Management Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Management Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Management Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Management Committee and supports the Management Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and ESPO's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from ESPO's management. The Management Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Covid-19 has had a significant impact on ESPO during 2020/21, affecting our operations, staff (most of whom had to work from home) and trading. Financial performance has been affected, mainly from 'lockdowns' and the closure of our core school customer base, but as a result of trading throughout the pandemic the end result is only a modest reduction in sales with the business remaining profitable.
2. Have you considered the appropriateness of the accounting policies adopted by ESPO? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Considered. No events or transactions that may cause us to change or adopt new policies.
3. Is there any use of financial instruments, including derivatives?	Financial Instruments that ESPO use are loans, receivables and borrowings and have fixed or determinable payments. These are not quoted in an active market. We note no use of derivatives during the financial year.
4. Are you aware of any significant transaction outside the normal course of business?	No

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None noted – non-current assets held by ESPO are minimal and mainly consist of the land and building at Grove Park which are being revalued at the end of 2020/21.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by ESPO during the year. Please indicate where they are working on open litigation or contingencies from prior years?	No litigation in the year, other than health and safety claims. Greg Surtees remains our in house solicitor should you have any queries.

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General Enquiries of Management

Question	Management response
9. Have any of ESPO's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None noted
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	None noted

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Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both ESPO's Management Committee and management. Management, with the oversight of the Management Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Management Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As ESPO's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Management Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Management Committee oversees the above processes. We are also required to make inquiries of both management and ESPO's Management Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from ESPO's management.

Fraud risk assessment

Question	Management response
<p>1. Have ESPO assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does ESPO's risk management processes link to financial reporting?</p>	<p>Management have assessed the risk of material misstatement due to fraud as low in the financial statements.</p> <p>Internal audit form an integral part of the risk management process, and are closely involved in providing advice, testing and challenging processes, and report directly into the Board as part of the risk management process.</p> <p>Financial processes are largely well established with segregation of duties and hierarchical authorisation in place across key risk areas. For example, invoices received have to be authorised in our workflow system by various individuals, including the budget holder. All payments are also reviewed prior to bank payment.</p> <p>We recognise the risk of management override surrounding journal postings, but this is monitored.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>General we feel there is a low risk with a low incentive for fraud with no specific account, transaction or disclosure at greater risk.</p> <p>Due to various staffing changes and remote working, during the year there was a period where bank reconciliations were not being fully completed on a timely basis. This has since been corrected.</p>

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Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within ESPO as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No instances of actual, suspected or alleged fraud or errors noted in the year.</p> <p>Risk is managed via our risk register and the Board updated on all high level risks in every meeting.</p> <p>Internal audit also provide oversight, with any observations being communicated at the management and audit committee meetings.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within ESPO where fraud is more likely to occur?</p>	<p>No material risks identified without mitigating controls.</p> <p>Specific inherent risk areas at risk of fraud include:</p> <ul style="list-style-type: none"> - Payments, particularly payments to overseas companies - Changes to supplier master data - Stock shrinkage <p>Mitigating controls are in place in all of these areas to introduce segregation of duties, hierarchical authorisation and reconciliations, hence we have no concerns that these areas have a residual risk of fraud. Regarding stock shrinkage, goods are of low incentive (school supplies rather than high value consumer electronics etc) and of low value and there are established procedures and protocols within the warehouse which staff are fully trained on.</p>
<p>5. What processes do ESPO have in place to identify and respond to risks of fraud?</p>	<p>As mentioned above, various internal controls are in place to mitigate an inherent risk of fraud. In addition, Internal Audit review and provide recommendations to the Board.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for ESPO, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>We consider the overarching control environment to be sufficient to prevent, and deter, material fraud taking place within ESPO.</p> <p>There is a low pressure to achieve financial targets as employee remuneration is not being linked to financial performance, and the Board are regularly updated on performance in an open, honest and transparent culture. This reduces any incentive to manipulate results.</p> <p>Core controls have been established in keys areas within finance to prevent fraud and these are regularly reviewed by Internal Audit, or otherwise typically when a problem arise. Such a problem more likely to be of an operational nature rather than a fraud risk.</p> <p>We also benefit from being close to Leicestershire County Council and kept up to date with issues they may be facing with regards to fraud which can prompt review or consideration within ESPO.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Rebate and Gas Revenue is recognised on a cash basis rather than accruals basis, to ensure that revenue is consistent year on year and to avoid misreporting.</p>

Fraud risk assessment

Question	Management response
<p>8. How does ESPO communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All new joiners are giving training, and staff also complete e learnings regularly.</p> <p>We have a fraud section on the intranet which is accessible to all employees, giving information and guidance and also an e-learning specific to fraud.</p> <p>Our corporate values are working together, trust and respect, openness and transparency, positivity, customer focussed. These are visible in the building, online and help shape the working environment within ESPO.</p> <p>No issues have been reported in the year.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Higher risk posts in relation to fraud/corruption might include the Board, leadership team, procurement and buying teams. We have clear policies on bribery and corruption, accepting gifts, registering interests/ potential conflicts of interest. We also have internal procedures in place regarding segregation of duties and hierarchical authorisation to prevent fraud and corruption. A large part of the procurement service is designed around being transparent to specifically address the risk of fraud/corruption in buying goods/services.</p> <p>From specifically a finance perspective, manual journal entries present a risk – however these are made by a small number of individuals in the strategic finance team and journals are reviewed.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Unaware of any issues.</p> <p>Risk mitigated as related parties are known with leadership team and board members having to declare any interests they may have.</p> <p>No transactions with members (i.e. board members as individuals). Transactions with consortium members (councils) all occur on a commercial basis as part of the normal course of trade, with anything unusually being declared, such as Leicestershire County Council declaring an interest in the proposed new warehouse as it is on their land.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Management Committee? How does the Management Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>On the intranet there is a Whistleblowing document which outlines the steps to be taken to report fraud issues by staff. The staff should tell their manager/Head of Service/Director and then the issue is assessed as to what steps should next be taken. Additionally, Internal audit look at our processes and look at any internal control issues with results and recommendations being shared with the Board.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None noted</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None noted</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of ESPO's Management Committee, is responsible for ensuring that ESPO's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and ESPO's Management Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

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Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does ESPO have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to ESPO's regulatory environment that may have a significant impact on ESPO's financial statements?</p>	<p>Procurement regulation is monitored by in house compliance team, health and safety and data protection is also looked after by in house officers however this is also overseen by LCC departments. 2020/21 saw significant focus on ensuring that the workplace was Covid secure and safe for our staff team.</p> <p>No changes have been noted in the regulatory environment which would impact the 20/21 financial statements.</p>
<p>2. How is the Management Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Appointment of appropriate individuals throughout the business, use of in-house solicitor to advise on procurement laws and regulations and any other legal disputes. Also qualified individuals appointed who are aware of laws and regulations in their area. Internal audit's completed regularly by Leicestershire County Council. Directors of area's across the business also ensures all laws and regulations are complied with, and attend quarterly management committee meetings when any issues would be discussed.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>None noted.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>No – no legal cases in the year, only health and safety related claims. These would not have any impact on the financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does ESPO have in place to identify, evaluate and account for litigation or claims?	In house legal solicitor to look after any legal claims and litigation.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None noted. Routine HMRC VAT visit took place in the year but all queries responded to and no instances of non-compliance noted.

Related Parties

Issue

Matters in relation to Related Parties

ESPO are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by ESPO
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over ESPO
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of ESPO or of any entity that is a related party of ESPO. A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then ESPO must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

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Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in ESPO's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and ESPO Whether ESPO has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes from 2019/20.</p> <p>ESPO provides goods and services to all member authorities and as a consequence recognises sales revenue and has amounts owed by these member authorities: Cambridgeshire county council, Leicestershire county council, Lincolnshire county council, Norfolk county council, Peterborough city council and Warwickshire county council.</p> <p>Individual members of the management committee, who have direct control over the financial and operating policies of ESPO, have not received any payment, or had any interest in work or services commissioned by ESPO.</p> <p>In addition, ESPO Trading Limited continues to operate (and own a subsidiary called Eduzone) and is subject to common control (being owned by the same 6 consortium members and managed by the same leadership team).</p>
<p>2. What controls does ESPO have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>At Board level disclosure of conflicts of interest or bias are a normal and well established part of business and actively considered by the board and leadership team.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Anything significant would need to be approved by the Board.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As part of our commitment to transparency any significant transaction outside of the normal course of business would require approval by the board.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Management Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Management Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	As detailed in appendix A.
2. How does ESPO's risk management process identify and address risks relating to accounting estimates?	Accounting estimates have been reviewed at year end to consider and address any associated risk.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Source data is linked to the area of the estimate and individuals within the business who have good understanding of the issues are involved. Where further guidance is needed (such as property valuation) external experts are used to support the estimate.
4. How do management review the outcomes of previous accounting estimates?	As part of reviewing 2021 year end, previous estimates have been considered.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	The method of estimating the provision for obsolete stock has been updated. No other changes.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	External specialists used for property and pension estimates.
7. How does ESPO determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	ESPO has relatively few significant accounting estimates. Terms of engagement are agreed with externals to provide assurance over the work provided. The key control applied within ESPO is independent review.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As above.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The most significant/material estimates relate to the property valuation and the pension scheme valuation. These are fully reviewed by the finance director, disclosed in the accounts and scrutinised by the Finance and Audit sub-committee before the main Board.</p> <p>Other less significant estimates are reviewed by the financial director.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Management Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through open discussion and challenge of ESPO management and the audit process.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land & Buildings Valuations	Revaluation model with fair value for land/buildings defined as 'existing use' by ESPO.	Valuations are normally performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. All land and buildings are being revalued at March 21.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional RICS qualified valuers and rely on expert opinion.	No
Depreciation and Amortisation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and for the building the useful life is determined by the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Review of all assets undertaken annually in line with our accounting policies.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Fair Value Measurements	Financial instruments consist of loans, receivables and borrowings. Measured initially at cost and subsequently at amortised cost using the effective interest method.	See left.	None	N/A	No

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The actuarial gains and losses figures are calculated by the actuarial expert Hymans Robertson. These figures are based on making % adjustments to the closing values of assets/liabilities.	See left.	We are provided with a report from the actuary, Hymans Robertson.	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Impairment allowance for doubtful debt	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off at the period end. A provision is held for debts at risk based on a specific review.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. The finance director will review and sign off the write off.	N/A	N/A	No.

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.



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MANAGEMENT COMMITTEE – 29 JUNE 2022**2020/21 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT****JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER****Purpose of Report**

1. This report sets out the 2020/21 financial statements (also referred to as the Statement of Accounts within a local government setting) and the 2020/21 Annual Governance Statement (AGS).
2. The Committee is asked to approve both documents.

Background

3. The ESPO constitution requires statutory statements of accounts ('financial statements') to be prepared for approval by Management Committee. These accounts are attached as Appendix 1. These are draft pending approval by the Committee.
4. The external audit and the audit opinion is considered elsewhere on the agenda.
5. Given the small size of both ESPO Trading Limited (ETL) and Eduzone, they don't require an external audit and their accounts were approved by their respective Boards of Directors in 2021.

Key Points

6. For 2020/21 the trading surplus previously reported to Management Committee (our 'Management Accounts') was a surplus of £4.6m. This was £1.2m less than 2019/20 and this reduction reflected the impact of the Covid-19 pandemic. As discussed in previous Management Committee meetings during 2021, this was a great result for ESPO and for our customers and suppliers, with ESPO remaining operational throughout the pandemic to support key educational and public sector services.
7. The Financial Statements show a net profit for 2020/21 of £4.0m (2019/20 = £4.0m). This is different to the Management Accounts due to pensions (which are only accounted for fully in the Financial Statements) and a number of other statutory adjustments.
8. A dividend of £3.3m was paid to members in December 2021 in respect of the 2020/21 surplus. The statutory adjustments, including the large movements in the pension scheme, do not impact the value of the dividend paid.

9. ESPOs financial position remains healthy, with net current assets of £17.9m at 31 March 2020. This allowed for the dividend in paragraph 8 to be paid, supports the build up of reserves for the planned investment in a new warehouse facility, and supports the working capital needs of the business.

Key Areas of Judgement

10. There are a number of areas of judgement in the Financial Statements, which require estimates to be made and/or assumptions used. These could have a very significant impact on the Financial Statements:
11. Value of pension deficit: The closing position as at 31st March 2021 was a net deficit of £26.7m (prior year £16.6m). This is shown as 'Post Employment Benefits' on the balance sheet on page 10 of the financial statements. Further details are provided in note 17 to the accounts and the valuation is based on a third party valuation by the actuaries Hymans Robertson. The change is significant and is due to changes in financial assumptions linked to the Covid Pandemic. The position has now returned to a pre-pandemic position (where at 31 March 2019 the deficit was £24.8m). This is being repaid over a number of years through our normal pension contributions.
12. Value of land and buildings: The Grove Park premises were valued at £15.6m (prior year £14.4m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £5.0m (prior year £5.5m).
13. Going Concern: A key assumption in preparing the financial statements is that ESPO will continue trading for the foreseeable future, considered to be at least 12 months from the date of signing the financial statements. The Director's report, considered elsewhere on the agenda, gives a current trading update, but trading in 2021/22 has been strong and we remain on target to deliver the Medium Term Financial Strategy (MTFS) giving comfort over the use of the going concern assumption.

Annual Governance Statement

14. Similar to the external audit, and unlike local authority members, ESPO is not required to publish an Annual Governance Statement(AGS). It is however a useful tool to review the effectiveness of our governance arrangements and to demonstrate good governance to our stakeholders.
15. The AGS was reviewed by a senior management group consisting of:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

16. The 2020/21 Annual Governance Statement is included in Appendix 2.
17. During the review period of 2020/21 the only significant issue identified was the risk to the achievement of the budgeted surplus in the financial year 2020/21 as a result of the COVID-19 crisis. In 2020/21 ESPO did fall short of its budgeted surplus (due to Covid) but Management Committee will be aware that performance rebounded in 2021/22 with ESPO having a strong year.

Governance and Assurance

18. In reviewing the decision to approve the 2020/21 Financial Statements, Management Committee can gain assurance over the quality of the governance arrangements within ESPO from:
- a. The external auditors, through their audit opinion and audit findings report.
 - b. Internal audit, through previous updates to Management Committee and also inclusion in the AGS process.
 - c. ESPO Management, through previous updates to Management Committee and also inclusion in the AGS process.

Recommendation

19. The Committee is asked to:
- a. approve the 2020/21 financial statements
 - b. approve the 2020/21 annual governance statement.

Equal Opportunities Implications

20. None

Officer to Contact

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Appendices

Appendix 1 – 2020/21 ESPO Financial Statements

Appendix 2 – 2020/21 Annual Governance Statement

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**Eastern Shires Purchasing Organisation
Annual report and financial statements
for the year ended 31 March 2021**

Eastern Shires Purchasing Organisation

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Eastern Shires Purchasing Organisation

Annual Report

Eastern Shires Purchasing Organisation ('ESPO') provide a professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies.

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act. The member authorities of the joint committee, known as the 'Management Committee' at 31 March 2020 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

Strategic report

The strategic report on Eastern Shires Purchasing Organisation (ESPO) for the year ended 31 March 2021 is presented below.

Review of the business

2020/21 saw an exceptionally challenging year for businesses and people across the UK, and ESPO was no exception. The Covid pandemic saw large elements of the UK shut down and a Stay at Home order was issued by the Government, with only critical infrastructure and key workers remaining operational in their usual place of work. ESPO was one such supplier and we are incredibly proud of our team who worked throughout the pandemic to provide essential supplies and procurement services to the schools and public sector clients we serve.

Financially, a profit of £4.0m has been created which is in line with the previous year and the Management Committee are happy with the result given the difficult trading environment.

In 2020/21 we saw many of our educational customers closing except to support the children of key workers and this resulted in an overall reduction in revenue from £88m to £79m. Catalogue revenue (Stock and Direct) fell, but we still delivered/administered £57m of goods to our customers and the Management Committee considers this to be outstanding under the circumstances. Based out of our Leicester warehouse and head office, our staff adapted to working in a Covid secure way and whilst some staff were able to work from home many remained on site during the pandemic. Sourcing products, including PPE, was a challenge throughout the year where we saw greater levels of price volatility and lower availability than normal, due to global supply chain challenges affecting the entire market. The team were able to rapidly respond to continually changing circumstances to maintain our wide product range and continue to offer great value for money to customers.

Gas income fell from £16m to £13m, but ESPO acts as a procurement agent for this income stream and the reduction in revenue is directly linked to a reduction in the wholesale prices that our Energy team were able to forward buy. As a result our customers directly benefitted from lower energy prices. Whilst energy prices increased in later 2021 (where there was significant market disruption), ESPO's Energy offer resulted in our customers benefitting from the good prices we had secured in advance, and continue to benefit from the reduction in uncertainty over price volatility that our offer provides.

Rebate income from our frameworks continued to grow and reached a record £8.3m, with ESPO continuing to offer a broad range of frameworks for our public sector customers to support their procurement needs.

Costs remained tightly controlled to ensure we could mitigate the reduction in revenue and continue to best provide value to our customers and our member authorities.

In working to keep our staff, customers and suppliers safe, and in following the UK Government's advice in relation to the Stay At Home order issued in March 2020, our external auditors were unable to attend our premises and observe the physical counting of inventory which took place in March 2020. No material issues were identified by ESPO during the count. However, as a result of the auditors being unable to independently audit our opening stock valuation, this technicality resulted in a qualified audit opinion for 2020/21 which was unavoidable and we understand a number of other organisations were affected in a similar way. A full inventory count was successfully completed at the end of March 2021 which was attended by our external auditors without issue.

Principal risks and uncertainties

ESPO's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. ESPO does not use derivative financial instruments for speculative purposes.

Credit risk

ESPO's financial assets are bank balances and cash, trade and other receivables.

Eastern Shires Purchasing Organisation

The credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, ESPO uses a mixture of long-term and short-term debt finance.

Political risk

On 31 January 2020, the United Kingdom left the European Union and entered a transitional period until 31 December 2020. A trade deal with the EU was agreed and came into effect from 1 January 2021 and this clarified the UK's trading relationship with the EU. ESPO continues to closely evaluate the operational and financial impacts arising from the UK leaving the EU and will adjust plans, to ensure service levels remain in line with current performance, accordingly.

Covid-19

On 11 March 2020 the World Health Organisation labelled the public health emergency situation caused by the Covid-19 outbreak, as a global pandemic. The rapid escalation of events, in both the United Kingdom and worldwide, resulted in an unprecedented health crisis that has, and continues to have, an impact on the macroeconomic environment and business evolution. To tackle the issue, the UK government issued orders to stay at home, closed certain businesses and venues, and prohibited public gatherings along with other guidelines.

ESPO responded to this in a variety of ways to ensure the wellbeing of employees and minimise disruption to the business as far as possible. All staff who could work from home, did work from home, and we have responded to this crisis by managing safety on site in our warehouse and offices. As restrictions lifted ESPO commenced a gradual return to the office and hybrid working.

Many customers of ESPO temporarily closed for business or altered operations, as many schools closed. ESPO sought to achieve cost savings during this period to maximise cashflow, as well as taking advantage of government support available, such as the employee furlough scheme. Government restrictions continued to evolve and change throughout 2020 and 2021, and as lockdown eased and schools re-opened we saw demand increase.

ESPO continued to trade throughout the pandemic and provided essential services and supplies to our customers and the communities they serve. We were proud to be chosen to act as a Local Authority distribution hub for key products and food parcels being sent to vulnerable people under the Government shielding programme for Leicestershire County Council, Leicester City and Rutland. Our staff team have played a key part throughout the pandemic, with some of our team continuing to operate at our head office site in a Covid secure environment, and a significant number working remotely in line with government guidelines.

Going Concern

The senior officers have reviewed the going concern status of ESPO and have a reasonable expectation that ESPO has adequate resources to continue in operational existence for the foreseeable future. A Medium-Term Plan covering five years is presented to the Management Committee and reviewed and approved on an annual basis. Also, a revised forecast for the current trading year is carried out every six months to reflect any changes that may materially impact the year end position.

At year end ESPO has net current assets of £17.9m, a strong cash position and ESPO has continued to trade throughout the pandemic. With regard to Covid-19, in early 2021/22 trading largely returned to pre-pandemic levels linked to schools starting to re-open more fully from March 2021. ESPOs has continued to monitor and respond to circumstances as they have arisen to minimise their impact on the organisation.

Financial performance is closely monitored and a number of different scenarios evaluated to ensure that even in the rapidly changing and uncertain external environment ESPO can continue to ensure its long-term sustainability.

In considering all of the above, ESPO continue to adopt the going concern basis in preparing the financial statements.

Eastern Shires Purchasing Organisation

Management Committee Responsibilities Statement

The Management Committee are responsible for ensuring the proper administration of ESPOs financial affairs, its compliance with all laws and regulations, and for approving the annual report and financial statements.

The Management Committee have elected to prepare financial statements which give a true and fair view of the state of affairs and profit or loss of ESPO for that period in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). In preparing these financial statements, the Management Committee have ensured that:

- suitable accounting policies have been selected and applied consistently;
- judgements and accounting estimates made are reasonable and prudent;
- they state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the organisation will continue in business;

The Management Committee are responsible for ensuring that adequate accounting records are maintained that are sufficient to show and explain ESPO's transactions and disclose with reasonable accuracy at any time the financial position of ESPO and enable them to ensure that the financial statements comply with United Kingdom Generally Accepted Accounting Practice. They are responsible for managing ESPO's affairs to secure economic, efficient and effective use of resources and also safeguard its assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Management Committee are responsible for ensuring the maintenance and integrity of the corporate and financial information included on the organisation's website at www.espo.org. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To ensure the proper administration of its financial affairs the Management Committee secure that one of its officers has the responsibility for the administration of those affairs; for the consortium that officer is the Director of Finance of Leicestershire County Council who is the 'Consortium Treasurer';

These accounts were approved at a meeting of the Management Committee on 15 September 2021

Cllr. P Butlin

Chairman, ESPO Management Committee

C Tambini

Director of Finance of Leicestershire County Council (Consortium Treasurer of ESPO)

Eastern Shires Purchasing Organisation

Independent auditor's report to the consortium of Eastern Shires Purchasing Organisation

Qualified Opinion

We have audited the non-statutory financial statements (the 'financial statements') of Eastern Shires Purchasing Organisation (the 'joint committee') for the year ended 31 March 2021, which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cashflows, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the matter described in the basis for qualified opinion section of our report the financial statements give a true and fair view of the state of the joint committee's affairs as at 31 March 2021 and of its profit for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for qualified opinion

Due to the national lockdown arising from the Covid-19 pandemic we did not observe the counting of physical inventories at the start of the year. We were unable to obtain sufficient appropriate audit evidence regarding the stock quantities held at 31 March 2020, which have a carrying amount in the Balance Sheet of £6,652,000, by performing other audit procedures.

Consequently we were unable to determine whether any adjustment to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the joint committee in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the consortium's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the consortium have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the joint committee's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The consortium are responsible for the other information. The other information comprises the information included in the strategic report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Eastern Shires Purchasing Organisation

Independent auditor's report to the consortium of Eastern Shires Purchasing Organisation

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Consortium for the financial statements

As explained more fully in the consortium's responsibilities statement set out on page 5, the consortium are responsible for preparation of the financial statements which give a true and fair view, and for such internal control as the consortium determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the consortium are responsible for assessing the joint committee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the consortium either intend to liquidate the joint committee or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the joint committee's consortium, as a body, in accordance with our letter of engagement dated 12 March 2020. Our audit work has been undertaken so that we might state to the joint committee's consortium those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the joint committee and the joint committee's consortium as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date:

Eastern Shires Purchasing Organisation

Income Statement

For the year ended 31 March 2021

		2021 £'000	2020 £'000
	Note		
Turnover	5	79,427	87,892
Cost of sales		(54,856)	(62,953)
		<hr/>	<hr/>
Gross profit		24,570	24,939
Distribution costs		(1,989)	(1,630)
Administrative expenses		(17,993)	(18,602)
		<hr/>	<hr/>
Operating profit	8	4,588	4,707
Interest receivable	9	22	114
Interest payable	10	(619)	(855)
		<hr/>	<hr/>
Profit for the financial year		<u>3,992</u>	<u>3,965</u>

Eastern Shires Purchasing Organisation

Statement of Comprehensive Income

For the year ended 31 March 2021

		2021 £'000	2020 £'000
	Note		
Profit for the financial year		3,992	3,965
Gains arising on revaluation of tangible fixed assets		1,190	1,060
Remeasurement of net defined benefit liability	17	(9,585)	10,391
Total comprehensive income		(4,403)	15,417

Eastern Shires Purchasing Organisation

Balance sheet

As at 31 March 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	11	771	24
Tangible assets	12	16,723	15,787
		<u>17,494</u>	<u>15,811</u>
Current assets			
Stocks	13	6,785	6,652
Debtors: amounts falling due within one year	14	9,030	8,249
Cash at bank and in hand		10,718	13,598
		<u>26,533</u>	<u>28,500</u>
Creditors: Amounts falling due within one year	15	<u>(8,639)</u>	<u>(10,407)</u>
Net current assets		<u>17,893</u>	<u>18,092</u>
Total assets less current liabilities		<u>35,388</u>	<u>33,902</u>
Creditors: Amounts falling due after more than one year	16	<u>(4,500)</u>	<u>(5,000)</u>
Post Employment Benefits	17	(26,995)	(16,575)
		<u>3,893</u>	<u>12,327</u>
Net assets		<u>3,893</u>	<u>12,327</u>
Capital and reserves			
General Reserve		27,344	26,549
Pension Reserve		(26,995)	(16,575)
Revaluation Reserve		3,544	2,354
		<u>3,893</u>	<u>12,327</u>
Total Reserves		<u>3,893</u>	<u>12,327</u>

The financial statements of Eastern Shires Purchasing Organisation were approved by the members and authorised for issue on 15 September 2022. They were signed on its behalf by:

C Tambini

Director of Finance of Leicestershire County Council (Consortium Treasurer of ESPO)

Eastern Shires Purchasing Organisation

Statement of Cash Flows

For the year ended 31 March 2021

		2021 £'000	2020 £'000
	Note		
Net cash from operating activities	20	2,784	7,335
Cash flows from investing activities			
Purchase of fixed assets	12	(154)	(745)
Purchase of intangible assets	11	(768)	(40)
Interest received	9	22	114
Net cash from investing activities		(900)	(671)
Cash flows from financing activities			
Interest paid	10	(232)	(240)
Repayment of borrowings		(500)	(500)
Dividends paid		(4,032)	(3,414)
Net cash used in financing activities		(4,764)	(4,154)
Net increase/(decrease) in cash and cash equivalents		(2,880)	2,510
Cash and cash equivalents at the beginning of the year		13,597	11,087
Cash and cash equivalents at the end of the year		10,718	13,598

Eastern Shires Purchasing Organisation

Statement of Changes in Equity

For the year ended 31 March 2021

	P&L Reserve £'000	Pension Reserve £'000	Revaluation Reserve £'000	Total £'000
At 1 April 2019 (as restated)	23,869	(24,839)	1,294	324
Profit for the financial year	3,965	-	-	3,965
Other Comprehensive Income for the year	-	10,391	-	10,391
Total comprehensive income	27,834	(14,448)	1,294	14,680
Surplus on revaluation of PP&E	-	-	1,060	1,060
Remeasurement of net defined benefit liability	2,127	(2,127)	-	-
Dividend paid	(3,414)	-	-	(3,414)
At 31 March 2020	26,547	(16,575)	2,354	12,326
Profit for the financial year	3,992	-	-	3,992
Other Comprehensive Income for the year	-	(9,585)	-	(9,585)
Total comprehensive income	30,539	(26,160)	2,354	6,733
Surplus on revaluation of PP&E	-	-	1,190	1,190
Remeasurement of net defined benefit liability	835	(835)	-	-
Dividend paid	(4,032)	-	-	(4,032)
At 31 March 2021	27,342	(26,995)	3,544	3,891

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

1. General Information

Eastern Shires Purchasing Organisation ('ESPO') provide professional, comprehensive, value for money purchasing, contracting and supplies service for member authorities and other public bodies.

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act. The member authorities are Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

2. Statement of Compliance

The financial statements of Eastern Shires Purchasing Organisation ('ESPO') have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102').

3. Summary of Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a. Basis of preparation

These financial statements are prepared on a going concern basis.

FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the organisation's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 4.

The functional currency of ESPO is considered to be pounds sterling because that is the currency of the primary economic environment in it operates.

b. Going concern

The Consortium has reviewed the going concern status of ESPO by its ability to meet its day to day working capital requirements and the updating of its medium term financial plan. The current economic conditions continue to create uncertainty over the level of demand for ESPO's products but the Consortium's latest financial plan considers the possible impact of Covid-19, taking account of reasonable possible changes in trading performance, and shows that ESPO should be able to continue to operate for the foreseeable future.

With regard to Covid-19, the organisation is acting to deal with events arising from the pandemic and to minimise impact on ESPO. The Consortium considers this is a temporary situation, and according to the current cash position and revised forecasts, this will not compromise the organisation's ability to continue as a going concern.

In considering the above, the management have reasonable expectation that the organisation has adequate resources to continue in operational existence for a period of at least 12 months from approval of the financial statements.

The ESPO therefore continues to adopt the going concern basis in preparing its financial statements.

3. Summary of Accounting policies (continued)

c. Turnover

The organisation's trading activity is accounted for in the year that it takes place and not when cash payments are made or received. In particular:

Revenue from the sales of goods is recognised when ESPO satisfies the performance obligation to its customers on delivery and it is likely that economic benefits associated with the transaction will flow to ESPO. ESPO has standard payment terms agreed with its customers.

Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO. Revenue

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

associated with our procurement agency role in the sale of gas is recognised 1 month in arrears given the nature of our role in validating bills and supporting our customers to manage risk.

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.

Government grants, which are related to performance and specific deliverables, are recognised in the Income Statement when the organisation earns the right to the consideration by its performance.

d. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Income Statement or in the note to the accounts, depending on how significant the items are to an understanding of ESPO's financial performance.

e. Employee Benefits

Benefits Payable during Employment:

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid annual sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the organisation.

The Local Government Pension Scheme:

In accordance with the FRS 102, ESPO is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for ESPO. The Local Government Scheme is accounted for as a defined benefits scheme and is administered by our Servicing Authority, Leicestershire County Council. The liabilities of the scheme attributable to ESPO are included in the Balance Sheet on an actuarial basis using the 'projected unit method'. This is based on an assessment of future payments that will be made in relation to retirement benefits earned to date by employees and assumptions about mortality rates, employee turnover and projected earning for current employees.

Liabilities are discounted to their value at current prices using a discount rate at a rate shown within the assumptions used in the pension fund.

The assets of the fund attributable to the Authority are included in the Balance Sheet at fair value:

Quoted securities – current bid price	Unquoted securities – professional estimate
Unitised securities – current bid price	Property – market value

The change in the net pensions liability is analysed into the following components:

Current service cost: The increase in liabilities as a result of years of service earned this year – allocated in the Income Statement to employees.

Past service cost: The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Income Statement.

Net interest on the net defined benefit liability (asset)

The return on plan assets: Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses: Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Pension Fund: Cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

Discretionary Awards

ESPO also has restricted powers to make discretionary awards of retirement benefits in the events of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

f. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by ESPO as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the organisation.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of the assets held by ESPO can be determined by reference to an active market. In practice no intangible assets held by ESPO meet this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life and charged to the Income Statement. As asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are charged to the Income Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is charged to the Income Statement, in the year of the disposal.

g. Tangible Assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, on a straight-line basis over its expected useful life as follows:

Land and Buildings – 70 years

Vehicles, Plant and Equipment – 4 to 10 years

h. Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment is identified, they are accounted for by:

- Where there is a balance of revaluation gains for assets in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains) and recognised in the Statement of Comprehensive Income.

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount is written down and the cost charged to the Income Statement.

i. Leased Assets

Finance leases are recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between; a charge for the acquisition of the interest in the property, plant and equipment – applied to write down the lease liability, and a finance charge.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

j. Inventory

Inventories are included in the Balance Sheet at the lower of cost or net realisable value. Where the inventory is deemed to be obsolete the item is then written off. The cost of inventories is assigned using the weighted average costing formula.

k. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

l. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

m. Financial Instruments

Financial liabilities are recognised on the balance sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Income Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Income Statement is the amount payable for the year according to the loan agreement.

ESPO possesses only one type of financial asset - loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. Loans and receivables are recognised on the Balance Sheet when ESPO becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently measured at amortised cost. Annual credits to the Income Statement for interest received are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the loans that ESPO has, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest); and interest credited to the Income Statement is the amount receivable for the year in the loan agreement. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the assets original interest rate. Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Income Statement.

n. Borrowing costs

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. Capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

o. Taxation

ESPO is a joint committee set up under Section 102 of the 1972 Local Government Act and is entitled to certain exemptions from Corporation Tax on any surplus or profit it generates.

p. Dividends

Distributions to ESPOs joint committee member authorities, i.e. dividends, are recognised in the Statement of Changes in Equity when they are paid.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the organisation's accounting policies, which are described in note 3, judgements are required (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

The items in the ESPO's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment

The warehouse and offices premises at Grove Park are included at existing use value and are revalued regularly to ensure that the carrying amount is not materially different from their existing use value at the year end. Chartered Surveyors in the Property Services Division of Leicestershire County Council's Resources Department carry out the valuation. The current property value used in the 2020/21 accounts is based on a certificate issued by the Council's Principal Valuer as at 31 March 2021.

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

The current economic climate could present uncertainty as to whether the Consortium will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The carrying value of Property, Plant and Equipment at 31 March 2021 is £16.7m.

Pension Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. An independent firm of consulting actuaries is engaged to provide the Consortium with expert advice about the assumptions to be applied, although ultimate responsibility for forming these assumptions remains with the Consortium.

The carrying value of the Pension Liability as at 31 March 2021 is £27.0m (2020: £16.6m)

The effects on the net liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability of £1.5m. A one-year increase in member life expectancy compared with the assumption used would increase the liabilities by £2.5m. However, the assumptions interact in complex ways. During 2020/21, the organisation's actuaries advised that the net pension liability had increased by £10.4m attributable to updating of the assumptions.

The outbreak of COVID-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to the valuation.

Debtors

At 31 March 2021 ESPO had a balance of sales ledger debtors of £7.3m. A review of overdue debts has identified that impairment for doubtful debts of £0.4m was appropriate. However, there remains uncertainty over that estimate.

If an additional 1% of customers become insolvent, the amount of the impairment for doubtful debts would require an additional £0.1m to be set aside as an allowance.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

Stock

Stocks of catalogue products are held in anticipation of sales to customers and at 31 March 2021 gross stock of £7.4m was held. The catalogue is re-issued annually and products may be added or deleted creating a risk where stock in excess of 1-year worth of normal sales are held. In addition, there is a risk that products may become obsolete, perish or otherwise need to be discounted or on rare occasions disposed of. At 31 March 2021 the provision for the possible impairment of stock amounted to £0.7m.

If an additional 1% of the stock holding was identified to be obsolete or otherwise need to be written off, then the resulting reduction in stock and write down would be £0.1m.

Critical judgements in applying the accounting policies

Management have not identified any critical judgements in applying the organisation's accounting policies.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

5. Turnover and revenue

An analysis of turnover by class of business is set out below.

	2021 £'000	2020 £'000
Turnover:		
Stock Orders	41,887	44,900
Direct Orders	15,230	18,468
Gas	13,088	15,536
Rebate Income	8,331	7,912
Catalogue Advertising	837	887
Miscellaneous Income	54	189
	<u>79,427</u>	<u>87,892</u>

6. Senior Officers' remuneration and transactions

	2021 £'000	2020 £'000
<i>Senior Officers' remuneration</i>		
Aggregate Emoluments	506	402
Pensions Contributions	101	100
	<u>607</u>	<u>502</u>
	Number	Number
The number of senior officers who:		
Are members of a defined benefit pension scheme	<u>6</u>	<u>5</u>

7. Staff numbers and costs

The average monthly number of employees (including senior officers) was:

	2021 Number	2020 Number
Operations	164	156
Purchasing	113	118
Administration	49	44
	<u>326</u>	<u>318</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

7. Staff numbers and costs (Continued)

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	9,057	8,821
Social security costs	884	816
Defined benefit pension scheme costs (see note 17)	2,663	3,404
	<u>12,604</u>	<u>13,041</u>

8. Operating Profit

Operating profit is stated after charging/(crediting):

	2021 £'000	2020 £'000
Staff costs (excluding Agency costs)	12,053	11,530
Audit fees payable to the organisation's auditors	32	37
Profit on disposal of tangible fixed assets	-	-
Impairment of Inventory	59	257
	<u>12,144</u>	<u>11,824</u>

9. Interest Receivable

	2021 £'000	2020 £'000
Bank interest	<u>22</u>	<u>114</u>

10. Interest Payable

	2021 £'000	2020 £'000
Interest payable on long term loan	233	238
Pension interest cost and expected return on pension assets	386	616
Other interest payable	-	1
	<u>619</u>	<u>855</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

11. Intangible assets

	IT Software £000	Assets Under Construction £000	Total £000
Cost			
At 1 April 2020	780	-	780
Additions	4	765	769
Disposals	-	-	-
At 31 March 2021	784	765	1,549
Amortisation			
At 1 April 2020	757	-	757
Charge for the year	21	-	21
Disposals	-	-	-
At 31 March 2021	778	-	778
Net book value			
At 31 March 2020	24	-	24
At 31 March 2021	6	765	771

The Assets Under Construction category relates to new website development. The website went live in April 2021 therefore amortisation will be included from the financial year 2021/22.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

12. Tangible fixed assets

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Cost			
At 1 April 2020	14,360	4,140	18,500
Additions	-	154	154
Disposals	-	-	-
Revaluation	1,190	-	1,190
	<hr/>	<hr/>	<hr/>
At 31 March 2021	15,550	4,294	19,844
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 April 2020	-	2,714	2,714
Charge for the year	-	407	407
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2021	-	3,121	3,121
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2020	14,360	1,427	15,787
	<hr/>	<hr/>	<hr/>
At 31 March 2021	15,550	1,173	16,723
	<hr/>	<hr/>	<hr/>

The historical cost of revalued land and buildings are £12,006,000 (2020: £12,006,000).

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

13. Stocks

	2021 £'000	2020 £'000
Stock goods for sale	6,785	6,652
	<u>6,785</u>	<u>6,652</u>

14. Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	7,317	6,783
Prepayments and accrued income	912	754
Amounts due from related parties	633	526
Other debtors	168	186
	<u>9,030</u>	<u>8,249</u>

15. Creditors – amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	4,948	5,130
Other taxation and social security	411	419
Accruals and deferred income	1,758	2,944
VAT payable	882	1,248
Loans repayable within one year	500	500
Other creditors	140	167
	<u>8,639</u>	<u>10,407</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

16. Creditors – amounts falling due after more than one year

	2021 £'000	2020 £'000
Long Term Loan	4,500	5,000
	<u>4,500</u>	<u>5,000</u>

The long-term loan is an agreement with Leicestershire County Council, and relates to a loan for the Grove Park Land and Buildings, with the agreement to repay a capital amount of £500,000 each financial year as well as interest. Interest is charged at a fixed rate of 4.54%.

17. Employee benefits

As part of the terms and conditions of employment of its employees, the organisation makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the organisation has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The organisation participates in the Local Government pension scheme for employees, administered locally by the Servicing Authority, Leicestershire County Council. This is a funded defined benefit final salary scheme, meaning that the organisation and its employees pay contribution into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The pension scheme is operated under regulatory framework for the LGPS and the governance of the scheme is the responsibility of the pension fund management board Leicestershire County Council. The policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the board.

The principle risks to the organisation of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute.

The latest fund actuarial valuation at 31 March 2021 identified that the funds assets were sufficient to meet approximately 89% of the liabilities accrued up to that date. The pension costs that are charged to ESPO's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme. In addition, ESPO has made arrangements for the payment of added-years pensions to certain retired employees outside the provisions of the scheme, on an unfunded basis. In 2020/21, ESPO paid an employer's contribution of £2,214k (2019/20: £1,893k), into the Pension Fund, representing an average 24.4% of total pensionable pay. In addition, ESPO is responsible for all pension payments relating to added-years benefits it has awarded, together with the related increases. In 2020/21 these amounted to £10k (2019/20 - £10k), representing 0.2% of pensionable pay.

The IAS 19 balance sheet position as at 31 March 2021 is £26.9m (31 March 2020 – £16.6m).

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2021 £'000	2020 £'000
Current service cost	2,663	3,404
Past service cost		-
Net interest cost	386	616
	<u>3,049</u>	<u>4,020</u>

Recognised in other comprehensive income:

	2021 £'000	2020 £'000
Changes in financial assumptions	(15,466)	7,148
Changes in demographic assumptions	(787)	1,770
Other experience	381	4,288
Return on assets excluding amounts included in net interest	6,287	(2,815)
Total remeasurements recognised in Other Comprehensive Income	<u>(9,585)</u>	<u>10,391</u>

The amount included in the balance sheet arising from the organisation's obligations in respect of its defined benefit schemes is as follows:

	2021 £'000	2020 £'000
Present value of defined benefit obligations	(35,789)	(43,314)
Fair value of scheme assets	62,784	26,739
Net liability recognised in the balance sheet	<u>(26,995)</u>	<u>(16,575)</u>

The liability shows the underlying commitment that the organisation has in the long run to pay postemployment - retirement benefits. This total liability of £26.9m has a substantial impact on the net worth of the organisation as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit will result in the deficit being made good by increased contributions by the employer, over the remaining working life of employees, as assessed by the actuary.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Movements in the present value of defined benefit obligations were as follows:

	2021	2020
	£'000	£'000
At 1 April	43,314	51,893
Service cost	2,663	3,404
Interest cost	1,025	1,288
Contributions from scheme participants	534	491
Benefits paid	(624)	(556)
Changes in financial assumptions	15,466	(7,148)
Changes in demographic assumptions	787	(1,770)
Other experience	(381)	(4,288)
	<hr/>	<hr/>
At 31 March	<u>62,784</u>	<u>43,314</u>

Movements in the fair value of scheme assets were as follows:

	2021	2020
	£'000	£'000
At 1 April	26,739	27,054
Interest income on plan assets	639	672
Contributions from the employer	2,214	1,893
Contributions from scheme participants	534	491
Benefits paid	(624)	(556)
Return on assets (excluding amounts included in net interest)	6,287	(2,815)
	<hr/>	<hr/>
At 31 March	<u>35,789</u>	<u>26,739</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

17. Employee benefits (continued)

The expected return on scheme assets is determined by considering the expected returns available on assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The Local Government Pension Scheme assets comprised:

	2021		2020	
	£'000	% of total	£'000	% of total
Equity Securities				
Consumer	92	0%	68	0%
Manufacturing	27	0%	20	0%
Energy and Utilities	75	0%	56	0%
Financial Institutions	114	0%	85	0%
Health and Care	26	0%	20	0%
Information technology	30	0%	23	0%
Other	260	1%	194	1%
Debt Securities				
UK Government	3,030	8%	2,264	8%
Other	464	1%	346	1%
Private Equity	1,650	5%	1,233	5%
Real Estate				
UK Property	2,675	7%	1,999	7%
Investment Funds and Unit Trusts				
Equities	14,374	40%	10,739	40%
Bonds	1,512	4%	1,130	4%
Hedge Funds	3	0%	2	0%
Commodities	1,266	4%	946	4%
Infrastructure	1,882	5%	1,406	5%
Other	7,283	20%	5,441	22%
Derivatives				
Foreign Exchange	(46)	0%	(34)	0%
Cash and Cash Equivalents	1,072	3%	801	3%
Total	35,789	100%	26,739	100%

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The organisation's pension fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries. The principle assumptions used by the actuary have been:

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

17. Employee benefits (continued)

	2021	2020
Key assumptions used:		
Discount rate	2.0%	2.3%
Pension Increase Rate (CPI)	2.8%	1.8%
Salary Increase Rate	3.3%	2.3%

Mortality assumptions:

Life expectancy is based on the Fund's VitaCurves in line with the CMI 2020 model. The figures below show the average future life expectancies at age 65, based on these assumptions.

For future pensioners, figures assume members aged 45 as at the last formal valuation.

	2021 years	2020 years
Current Pensioners:		
Males	21.7	21.5
Females	24.2	23.8
Future Pensioners:		
Males	22.6	22.2
Females	25.9	25.2

The estimation of the defined benefit obligation is sensitive to actual assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumption occurring at the year end of the reporting period and assumes for each change that the assumption analysed changes while all other assumption remain constant. The assumption in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, on an actuarial basis, using the projected credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in previous years.

Sensitivities regarding the principle assumptions used to measure the scheme liabilities as at 31 March 2021 are:

	Approximate increase in Employer Liability	Approximate Monetary Amount £'000
0.1% decrease in Real Discount Rate	2%	1,476
1 year increase in member life expectancy	4%	2,511
0.1% increase in Salary Increases Rate	0%	184
0.1% increase in the Pension Increase Rate	2%	1,277

The impact of a change, either from increase to decrease or vice versa, would be as above but with the values being reversed.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

17. Employee benefits (continued)

Pension Fund Risk Management Strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore, the aim of the investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall Pension Fund Risk Management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board and is monitored annually or more frequently if required.

Impact on the organisation's Cash Flows

The objectives of the scheme are to keep employer's contributions at a constant rate as possible. The organisation has agreed a strategy with the scheme's actuary to achieve a funding of 100% over the next 20 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2019. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2020. The contributions payable by ESPO will be 27.1% in 2020/21, 28.0% in 2021/22 and 28.9% in 2022/23. The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013, The Local Government Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for the other main existing public service pension schemes in England and Wales). The act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The organisation anticipates to pay £2.2m of employer contributions to the scheme in 2022/23 and the weighted average duration of the defined benefit obligation for scheme members is 25 years.

18. Subsequent events

The consortium has concluded that there are no subsequent events which require any adjustment to the financial statements for the year ended 31st March 2021.

19. Related party transactions

Members

Members of the Management Committee have a direct control over the ESPO financial and operating policies. No payments are made by ESPO to any members of the Management Committee. During 2020/21 no members had an interest in any work or services commissioned by ESPO. Contracts were entered into in full compliance with the organisation's standing orders.

Officers

During 2020/21 no officers declared a pecuniary interest in any contractual or financial transactions.

ESPO consortium members

Sales

ESPO provides goods and services to all consortium member authorities, including LEA schools. All transactions are at market value and in the normal course of trading. In 2020/21 these sales totalled £29,172k (2019/20: £31,307k). The breakdown by consortium member authority is as follows:

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

19. Related party transactions (continued)

	2021 £'000	2020 £'000
Cambridgeshire County Council	4,870	5,140
Leicestershire County Council	4,696	5,007
Lincolnshire County Council	5,570	6,092
Norfolk County Council	7,251	7,795
Peterborough City Council	1,762	2,399
Warwickshire County Council	5,023	5,104
Total	29,172	31,307

Purchases

Leicestershire County Council is the consortium member whom acts as the 'servicing authority' and as such provides services to ESPO in the form of various corporate services. All transactions occur at cost and are in the normal course of trading. During 2020/21 purchases from Leicestershire County Council were £1,795k (2019/20: £1,599k)

Debtors and creditors

	Debtors		Creditors	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Cambridgeshire County Council	320	361	-	6
Leicestershire County Council	265	267	4	129
Lincolnshire County Council	360	550	-	-
Norfolk County Council	579	504	-	-
Peterborough City Council	106	85	-	-
Warwickshire County Council	474	341	-	-
Total	2,104	2,109	4	135

ESPO Trading Limited

ESPO Trading Limited (ETL), and it's subsidiary Eduzone Limited, are companies registered in England and Wales which are under common control – ETL is owned by the same consortium members as ESPO which are referred to above. ESPO sells goods and services to ETL and Eduzone at cost. These are summarised below:

	2021 £'000	2020 £'000
Sales	565	88
Debtors	323	215
Loan	310	311

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2021

Interest on the loan accrues at 5% above LIBOR, is unsecured and is repayable on demand.

20. Reconciliation of net movements in funds to net cash inflow from operating activities

	2021 £'000	2020 £'000
Operating profit for the financial year	4,486	4,707
Adjustments for:		
Depreciation of property, plant and equipment	407	411
Amortisation of intangible assets	21	26
Profit on disposal of property, plant and equipment	-	-
Remeasurement of net defined benefit liability	551	1,511
Decrease/(increase) in trade and other receivables	(780)	368
Decrease/(increase) in inventories	(133)	(165)
Increase/(decrease) in trade payables	(1,768)	477
Net cash from operating activities	2,784	7,335

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Draft Annual Governance Statement 2020/21

1. INTRODUCTION

The Consortium Treasurer is responsible for the preparation of the Consortium's Statement of Accounts in accordance with proper accounting practices. ESPO, on its own, is not a Local Authority and therefore has no requirement to account under the CIPFA Code of Practice. This gives ESPO a degree of flexibility and ESPO has previously decided to prepare financial statements under the Financial Reporting Standard applicable in the UK (FRS102) using the UK GAAP Framework

As ESPO is not a Local Authority it also has no requirement to prepare an Annual Governance Statement (AGS) following the CIPFA/LASAAC Code of Practice in Local Authority Accounting. However, recognising that such a document is a useful tool in demonstrating good corporate governance to its stakeholders, and the Management Committee, the AGS has been prepared for this year.

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

In discharging this overall responsibility, ESPO is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The AGS encompasses the governance system that applied in both ESPO and any significant group entities (e.g. ESPO Trading Limited (ETL), Eduzone) during the financial year being reported.

ESPO has approved and adopted a code of corporate governance as best practice, which is consistent with the principles of "Delivering Good Governance in Local Government Framework" (CIPFA/Solace, 2016). This statement explains how ESPO has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 6 (1a and 1b) which requires all relevant bodies to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement.

2. WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is defined as how organisations ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. ESPO's governance framework comprises the systems and processes, cultures and values by which ESPO is directed and controlled. It enables ESPO to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (the Framework)', sets the standard for local authority governance in the UK.

The Framework helps local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach.

The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how ESPO's management arrangements are set up to meet the principles of good governance and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any developments required. The main aim of the AGS is to provide the reader with confidence that ESPO has an effective system of internal control that manages risks to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The Framework requires ESPO to review arrangements against its Local Code of Corporate Governance to ensure it is consistent with the seven core principles of the Framework.

The principles contained in the Framework have been applied to the preparation of the AGS for the financial year. The AGS has been constructed by undertaking:

- A review of the effectiveness of the system of internal control
- Reviewing other forms of assurance
- Reviewing ESPO's response to (and planned recovery from) the COVID-19 virus

4. REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

Under ESPOs constitution it is required to have a sound system of internal control which: -

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the organisation is effective; and
- (c) includes effective arrangements for the management of risk.

ESPO must (each financial year): -

- (a) conduct a review of the effectiveness of the system of internal control, and,
- (b) ESPO has also elected to prepare an annual governance statement.

ESPO has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers and Leadership Team within ESPO who have responsibility for the development and maintenance of the governance environment.

To ensure the AGS presents an accurate picture of governance arrangements for the whole organisation, each Assistant Director and the Director was required to complete a 'self-assessment', which provided details of the measures in place within their Service /Division to ensure conformance (or otherwise) with the seven core principles of the Framework.

The self-assessments contained a set of conformance statements under each core principle, which required a corresponding score of 1, 2 or 3 to be recorded (1=Good, 2= Some weaknesses/areas for improvement, 3= Key weaknesses/many areas for improvement), based on the criteria – Refer to the Appendix.

Under this self-assessment, no significant governance concerns and no key weaknesses were identified. Areas where smaller improvements were identified have been added to an Action Plan to support the monitoring of progress.

5. OTHER FORMS OF ASSURANCE

Local Code of Corporate Governance

The Director has a duty to monitor and review the operation of the Code of Corporate Governance and as part of this process the Director ensures an annual assessment of the Organisation's compliance with the Code of Corporate Governance is undertaken. The local code was last formally reviewed in 2017.

Internal Audit Service

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

LCCIAS conducts its work in accordance with the Public Sector Internal Audit Standards (the PSIAS). The requirements of the PSIAS are contained in the Internal Audit Charter for ESPO mandating the purpose, authority and responsibility of the internal audit activity. Following an independent assessment, in April 2018, LCCIAS was judged to be generally conforming (the highest rating) to the PSIAS. As part of his Annual Report requirements for 2020-21 the Head of Internal Audit Service (HoIAS) conducted a self-assessment of LCCIAS' conformance to the PSIAS. The self-assessment confirmed that the County Council's internal audit activity generally conforms with the International

Standards for the Professional Practice of Internal Auditing. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP) and found that two new recommendations for improvement should be added, but three small improvements could be moved forward.

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

Internal audit reports often contain recommendations for improvements to the area being audited. The number, type and importance of recommendations affects how the auditor reaches an opinion on the level of assurance that can be given that controls are both suitably designed and are being consistently applied, and that material risks are unlikely to arise. The combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees, evaluations of the work of other assurance providers, meetings with the Consortium Secretary and Consortium Treasurer), facilitate the HoIAS in forming the annual internal audit opinion on the overall control environment.

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

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For 2020-21 based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the HoIAS concluded: -

HolAS opinion

Aside from the partial assurance rating given following the audit of credit control, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

Risk management arrangements

Governance of Risk

ESPO's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. In order for risk management to be most effective and become an enabling tool, ESPO must ensure a robust, consistent, communicated and formalised process is established. The Risk Management Policy and Strategy (RMP&S) is reviewed regularly and approved by the Management Committee. The RMP&S will be reviewed in-line with the yearly MTFS review, which is to be taken to the Finance & Audit Subcommittee in February 2022. In addition, ESPO's risk strategy will be subject to an annual review. Risk management processes have been further entrenched into the management of the organisation with each member of the management team being responsible for reviewing changes in risk on a quarterly basis within their area of responsibility.

External Audit

ESPO's 2019/20 external audit was undertaken by Grant Thornton and Grant Thornton will undertake the 2020/21 external audit. Grant Thornton were selected independently of ESPO's management team and were approved by Management Committee in November 2019.

ESPO's external auditors gave detailed findings from their 2019/20 audit work of ESPO, to those charged with governance through:

A report to those charged with Governance:

Under International Auditing Standards, external auditors are required to report to those charged with governance on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The 2019/20 report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control. An overall qualified audit opinion was delivered, but this was as a direct result of the impact of Covid 19 which prevented the auditors attending the onsite count of inventory to confirm the value of stock held on 31 March 2020.

Audit opinion for the Statement of Accounts / Financial Statements:

The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts sufficient to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or error. For 2019/20, ESPO's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation.

ESPO's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management

information. These controls demonstrate governance structures in place throughout the Organisation which contribute to the production of the Annual Statement of Accounts and positive opinion presented by our external auditors.

Organisational Governance and Performance Framework

Management Committee receives frequent (at least quarterly) financial and operational reports, which includes information relating to:

- Financial Information;
- Information issues;
- Procurement;
- Employee related information;

This is supplemented by further reporting to the Chief Officers Group and the Finance and Audit Subcommittee. The Leadership team receive information on a more frequently basis, with structured weekly and monthly performance reporting.

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

CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government (revised 2016) sets out five principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

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

The Role of the Head of Internal Audit

CIPFA's Statement on the Role of the Head of Internal Audit in Public Service Organisations (revised April 2019) sets out five principles that define the core activities and behaviours that belong to the role of the head of internal audit and the organisational requirements needed to support them. The Head of the Internal Audit Service for ESPO is also the Head of the Internal Audit Service for LCC.

ESPO's internal audit arrangements conform to the governance requirements of the CIPFA Statement. The HoIAS works with the Consortium Treasurer and Consortium Secretary, the Director of ESPO and other members of the Leadership Team to give advice and promote good governance throughout the organisation. The HoIAS attends the Finance and Audit Subcommittee and the Management Committee as and when required. The HoIAS also leads and directs the Internal Audit Service so that it makes a full contribution to and meets the needs of the Organisation and external stakeholders, escalating any concerns and giving assurance on ESPO's control environment.

The Role of the Consortium Secretary

The Consortium Secretary has responsibility for:

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

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

Commercial Arrangements

ESPO Trading Ltd: ESPO's power to trade is restricted to a limited number of public bodies and this market is shrinking. The establishment of a trading company allows ESPO (Trading) to trade with other organisations which are in the spirit of public bodies but not described as such in the 1970 Act – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

On 4th March 2020 following a review of the governance arrangements of ESPO Trading Limited and having regard to legal advice from external solicitors, Anthony Collins, the Management Committee agreed to streamline governance arrangements. The new arrangements still ensure that the Management Committee receives regular financial and business information to allow its oversight of ESPO Trading Limited's contribution to ESPO's wider business objectives.

Eduzone was a private limited company that supplied Early Years educational products and Early Years furniture to schools, nurseries and child minders. ESPO acquired the company following the necessary due diligence in 2018. Governance for Eduzone has now been incorporated into ESPO Trading Limited, with full merger of the two companies being potentially considered for a later date.

6. THE ORGANISATIONS RESPONSE TO THE CORONAVIRUS (COVID-19)

Towards the end of 2019/20, a global pandemic was declared in connection with the COVID-19 virus. Emergency responses were triggered, and lockdown measures were introduced in the UK from 23 March 2020.

ESPO'S planning for COVID-19 began in early February 2020. Business continuity plans were implemented across the organisation and 'Gold' and 'Silver' committees created to oversee and manage the response to the pandemic.

COVID-19 has had and continues to have a significant adverse effect on the economy. For 2020/21 ESPO remained operational, supported the COVID response with storage and distribution of PPE, managed to create a safe working environment for its staff team and managed to deliver a surplus, albeit less than that planned pre-COVID. It is possible that the impact will continue into future years as the global economy adjusts

and eventually returns to normal. ESPO is taking a number of measures to ensure the impact on the financial position is minimised where possible in medium-term recovery.

ESPO Management Committee had previously agreed to conduct certain meetings virtually and had set out a protocol for decision making in such circumstances. This placed ESPO in a good position when, as a result of the Coronavirus, attended meetings ceased. ESPO's previously scheduled meetings were able to continue and regulations made under the Coronavirus Act (2020) allowed the Committee to take decisions as it would have in attended meetings. Where necessary all meetings were live-streamed and as such were fully compliant with the Coronavirus Regulations and enabled the maintenance of good governance, principles of openness and accountability.

The constitutional arrangements allowed for urgent decisions to be taken by the Consortium Secretary in consultation with the Chairman. As stated above with the exception of the urgent decision taken regarding furlough all other decisions were taken by the appropriate bodies using virtual meetings. Briefings of the Constituent Authorities by the Director and the Senior Leadership Team also continued using virtual meetings.

Demands on IT systems and staff have been considerable, and most office-based staff will continue to work from home for the foreseeable future. Regular COVID-19 senior manager briefings continue to be provided as well as health and wellbeing support across the organisation, informed by an organisation wide survey. Work has also been carried out relating to returning to the workplace (recovery) and PPE staff risk assessments.

The organisation never stopped delivering its services during the national lockdown period. In order to achieve this the organisation had to introduce a host of new working practices or adjustments to existing practices, such as:-

- A zonal-picking protocol in the warehouse to keep picking staff in specific areas to avoid compromising social distancing guidelines.
- Warehouse shifts have been modified to end 15 minutes earlier to avoid congestion in corridors and locker rooms during shift changeover.
- Drivers are issued with full PPE and hand sanitiser and are not requesting customer signatures when making deliveries.
- Covid-19 specific risk assessments, covering home working and working from site, were disseminated to all members of staff. Staff then had individual conversations with managers and confirmation emails/signature obtained from staff. These risk assessments utilised LCC Corporate Health and Safety templates and guidance and were made specific to ESPO's operations.
- Building occupancy calculations were completed, based on Covid-19 social distancing rules, to understand how many staff could return to on-site work.

ESPO made use of Government support through the Coronavirus Job Retention Scheme and some staff were placed on furlough, with all staff having returned to work by early 2021/22. For office staff, the physical return to the workplace has been considered and is expected from late 2021. A Covid-19 return-to-site induction template has been created (one for offices, one for warehouse due to different roles) and this induction template will be used to reiterate the key COVID-19 workplace rules to returning staff. Service plans have also been produced by each head of service at ESPO. The organisation's financial recovery is detailed in a 10 year Long-Term Financial Strategy (LTFS) that was approved in spring 2021. Early trading through 2021/22 has been encouraging giving confidence in the LTFS.

7.GOVERNANCE ISSUES

A senior Management Group comprising the following officers:

Leicestershire County Council (The Servicing Authority)

- Director of Law and Governance (on behalf of the ESPO Secretary)
- Assistant Director - Strategic Finance & Property (on behalf of the Consortium Treasurer)
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

reviewed the draft AGS and determined if there were any areas for improvement. There is one significant governance issue identified during 2020/21, which is the risk of ESPO not achieving its financial budget surplus as a result of the COVID-19 crisis.

This review of effectiveness has been informed by both Internal and External Audit and the conclusion of the review is that ESPO's overall financial management and corporate governance arrangements during 2020/21 were sound.

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2020/21 are sound, the assurance gathering process identified key minor corporate areas of improvement, please see Appendix. Implementing actions to address these will ensure that identified weaknesses within ESPO's current control environment will be strengthened, and further enhance our overall governance arrangements.

During the review period 2020/21 the only significant issue identified was the risk to the achievement of the budgeted surplus in the financial year 2020/21 as a result of the COVID-19 crisis.

8. FUTURE CHALLENGES

ESPO continues to face significant challenges in these times. All such significant risks are detailed within the Corporate Risk Register, which is regularly reviewed by the Leadership Team and presented to the Management Committee. Managing these risks adequately will be an integral part of both the strategic and operational planning for ESPO.

As ESPO continues to trade and grow in complex and competitive market places there are a number of future governance challenges to consider:

- Worsening national finances, as a result of COVID-19, inflation, and increases in the cost of living, are likely to have a negative impact on public spending which could result in a reduced demand for ESPO's products from its core customers.
- Future challenges affecting ESPOs global supply chain network, with issues such as Covid and the war in Ukraine having a direct and indirect impact on suppliers' ability to produce and transport goods around the world.
- Future challenges around cost inflation, with issues like global supply chain problems, UK inflation, and UK cost of living increases directly affecting our cost base;
- Future challenges around ESPOs ability to recruit and retain staff in an increasingly competitive post-Brexit and post-Covid employment market, (such as the publicised shortages in HGV drivers in Autumn 2021).
- Future challenges from changing customer product buying patterns. For example, some schools moving to "electronic classrooms" where paper exercise books are replaced with electronic devices.
-
- Legislation as it develops will also be crucial in the future basis of public procurement, IR35 employment legislation or indeed the embedding of GDPR.
- Further issues for consideration will be to achieve the right mix of governance between ESPO the consortium and ESPO Trading Ltd, the former being a local government committee and the latter a private trading company with a board and shareholders.
- ESPO will want to consider its workforce and the ability to ensure recruitment and retention is well managed and supports the need of a growing organisation without compromising its standards.
- Covid -19 and impact on business. ESPO's Leadership Team, using guidelines and best practice from the Leicestershire County Council (LCC) recovery team, have produced a health & safety document specifically on the Covid-19 risk. The ESPO building has been signed-off as being Covid secure.

- Cyber Risks. This is covered under the IT section of the Corporate Risk Register.

9. CERTIFICATION

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

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

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

K. Smith
Director of ESPO

Cllr. P Butlin
Chairman, ESPO Management Committee

Appendix - AREAS FOR FURTHER DEVELOPMENT IN 2021-22

The AGS self-assessments contained a set of conformance statements under each core principle and related sub-principles as outlined in the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016), which required a corresponding score of 1, 2 or 3 to be recorded. The outcome of the review of the self-assessments is summarised in the table below:

Annual Review of the Effectiveness of the Council's Governance Framework against the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	
Core Principles of the Framework	Action to Develop Areas Further
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Review the operation of the code of conduct/ethical standards for suppliers.
	The LCC employee code of conduct is being reviewed, employees need to be informed and the principles embedded.
	Develop register to monitor the key areas where laws/regulations compliance is required, levels of risk and areas where action is required.
Principle B: Ensuring openness and comprehensive stakeholder engagement	Engagement with customers: consult with customers to understand what they value about the organisation and what they expect from the organisation in the future.
Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefit	Define a target, and an accompanying strategy, to reduce carbon emissions.
Principle E: Developing the entity's capacity including the capability of its leadership and the individuals within it	Consider the use of executive coaching/mentoring to maintain development of the organisation's leaders.
Principle F: Managing risks and performance through robust internal control and strong public financial management	Following completion of the ongoing cyber review, review recommendations and implement as appropriate
Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability to all our stakeholders.	Consider how the audit could be accelerated to enable the more timely release of the annual accounts.



ESPO MANAGEMENT COMMITTEE – 29 JUNE 2022

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2021-22

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Management Committee (the Committee) with an annual report on internal audit work conducted during 2021-22.

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs and has a specific responsibility for arranging a continuous internal audit of those affairs. The Treasurer arranges for Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS) to provide internal audit for ESPO.
3. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provide at section 5 'Internal Audit' that, 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
4. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) which were last updated in April 2017. Guidance on applying the standards is provided in an accompanying CIPFA Local Government Application Note which was last updated in 2019.
5. The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Internal Audit Charter for ESPO (re-approved by Management Committee 28 February 2017) defines the Finance & Audit Subcommittee (the Subcommittee) as 'the Board'. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the production of either the draft Annual Governance Statement or a different governance related report supporting the financial statements.
6. The Subcommittee received and noted the annual report at its meeting on 11 May 2022. However, the Subcommittee does not

have any decision-making authority, and so the HoIAS' annual report has to be approved by Management Committee.

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

Internal Audit Service Annual Report 2021-22

8. The annual report for 2021-22 is provided in the Appendix. The report includes the HoIAS opinion.

Aside from the partial assurance rating given following the audit of cyber security arrangements, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective

The opinion will also be contained in the draft AGS.

9. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines types of audits, the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
10. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given.
11. **Annex 3** is the result of the self-assessment conducted by the HoIAS of the Service's general conformance to the PSIAS.
12. **Annex 4** is the result of the HoIAS review of the Quality Assurance and Improvement Programme (QAIP). The Action Plan on the last page (bold font) shows further improvements are required.
13. Headlines from the report are: -
 - a. Whilst one audit returned a partial assurance rating, management has accepted the recommendations and is already working to implement them.
 - b. Overall, positive opinions were given in all three components of the 'control environment' i.e. the framework of governance, risk management and control (Annex 1)

- c. An overall substantial assurance rating is given that the control environment remains adequate and effective.
- d. The majority of planned work was achieved
- e. Several pieces of unplanned work were also achieved
- f. LCCIAS continues to 'generally conform' to the PSIAS
- g. Some actions in the QAIP are overdue.

Resources Implications

14. The budget for the provision of the internal audit service is contained within ESPO' Medium Term Financial Strategy under charges by the Servicing Authority.
15. 140 days were provided and the total charge to ESPO was £52,104.

Recommendations

16. That the Management Committee approves the Internal Audit Service annual report for 2020-21.

Equal Opportunities Implications

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

Background Papers

Constitution of the ESPO Management Committee
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
Annual Internal Audit Plan 2021-22
Report to Finance & Audit Subcommittee 11 May 2022

Officer to Contact

Neil Jones
Head of Internal Audit & Assurance Service

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Appendices

- | | |
|----------|---|
| Appendix | Internal Audit Service Annual Report 2021-22 |
| Annex 1 | The HoIAS Annual Opinion on the overall adequacy and effectiveness of ESPO’s control environment |
| Annex 2 | Summary of Internal Audit Service work between 1 April 2021 and 31 March 2022 from which the overall opinion is derived |
| Annex 3 | LCCIAS - Summary Self-Assessment Conformance to PSIAS (June 2022) |

Annex 4 LCCIAS - Quality Assurance Improvement Programme (June 2022)

ESPO

Leicestershire County Council Internal Audit Service Annual Audit Report 2021-22

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

27 April 2022

ESPO**LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE****ANNUAL REPORT 2021-22****Background**

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised in April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (the Finance & Audit Subcommittee) timed to support the Annual Governance Statement (AGS). Management Committee approves the annual report.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned, including a summary of the performance of the internal audit function against its performance measures and targets

- d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
- e. any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement

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

- 6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the types of audits undertaken, assurance ratings, the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
- 7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following overall opinion has been reached: -

Aside from the partial assurance rating given following the audit of cyber security, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective

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

- 8. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.
- 9. A number of 2020-21 audits that were at draft report stage were closed with no changes to opinions
- 10. There were three high importance recommendations in the Cyber Security Audit Report in 2021-22. ESPO management has accepted the recommendations and is working on implementing actions to mitigate the risk.
- 11. For the other 'assurance' type (see definitions) audits that were undertaken, based on the answers provided during the audits and the testing undertaken, they each returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they were not significant. Whilst one remained in draft report form at the time of this statement, the HoIAS does not envisage management will dispute their substantial assurance opinions.

12. Twelve audits returning 'no opinion' were 'consulting' (advisory) type audits (see definitions).
13. Three audits remain work in progress at the time of this statement,
14. Three audits were deferred into 2021-22 or cancelled.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.

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

16. The table below shows planned against actual performance in terms of number of audits (completed to draft issued stage)

Table 1 : Overall performance against 2021-22 internal audit plan

	<u>Audits</u>	<u>Complete @ 27/4</u>	<u>Incomplete @ 27/4</u>	<u>Cancelled</u>
Planned	16	10	3	3
Unplanned	6	6	-	-
Client management	1	1	-	-
Total	23	17	3	3

17. 150 days were originally planned but because of resourcing issues (including covid illnesses) 140 were achieved. Some resource has already been utilised in 2022-23 completing 2021-22 audits.

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

18. The HoIAS undertook a self-assessment of LCCIAS's conformance to the PSIAS and confirmed that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Some actions in the Quality Assurance and Improvement Programme (QAIP) are overdue.

Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

19. None, but a 'governance group' comprising the Director of ESPO, Assistant Director (Finance) of ESPO; the Consortium Treasurer, the Consortium Secretary, the Council's Democratic Services Officer and the HoIAS will review the draft AGS (or any alternative governance report) before it is presented to Management Committee.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS
27 April 2022

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2021-22**

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

27 April 2022

Background

During the financial year 2021-22, Leicestershire County Council Internal Audit Service (LCCIAS) provided internal audit activity to the Eastern Shires Purchasing Organisation (ESPO). LCCIAS conforms to the Public Sector Internal Audit Standards (the PSIAS) revised with effect from April 2017. The PSIAS require the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of ESPO's control environment i.e. its framework of governance, risk management and control. The PSIAS definitions of the types of audits undertaken and of the control environment are to be found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro-assurance** over a defined period (financial year 2022-22) and combines:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and where appropriate the individual audit opinion. Individual audit engagements provide targeted **micro-assurance**.
- Professional judgement of the HoIAS based on his knowledge, experience and
- evaluation of other related activities. This provides a holistic, strategic insight into ESPO's control environment.
- The HoIAS' views on the ESPO's responses to the coronavirus.

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

Governance related internal audit work

Advice was provided on the compilation of the Annual Governance Statement for 2020-21. Good governance principles were found to have been applied in the compilation. The HoIAS is part of a group comprising the ESPO Director, the Assistant Director Finance, the Consortium Treasurer, and Consortium Secretary which review the content of the draft Annual Governance Statement.

The HoIAS and the designated Audit Manager attend the Finance and Audit Subcommittee and appropriate Management Committee meetings to present audit plans and reports, which enables him to gauge ESPO Member governance at first hand. The Audit Manager deputised at a Chief Officer Group meeting providing a different perspective.

The HoIAS and the Audit Manager have regular discussions with the ESPO Director and the Leadership Team, the Consortium Treasurer, and where required the Consortium Secretary, on governance issues and related aspects of audits.

Risk management related internal audit work

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

An audit of cyber security arrangements returned only a partial assurance rating. ESPO management accepted all findings and is working on implementing recommendations. A follow up audit is planned in 2022/23.

Advice continues to be given in respect of the warehouse project, with the Audit Manager being a critical friend of the project board. In addition, 'Critical friend' membership of the website project board by the Audit Manager was well received and facilitated good governance, the management of risk and control advice.

An assessment of any matches identified in the National Fraud Initiative results was completed and no material issues found.

The HoIAS monitors members engagement with ESPO's risk registers through Management Committee meetings and an audit of the risk management process resulted in a substantial audit opinion, but with a need to update the policy and encourage member engagement on specific risks.

Financial (and ICT) Controls related internal audit work

A number of financial system audits were undertaken including those of ESPO's General Financial Systems, IT General Controls and work provided by the Servicing Authority (H&S). These audits are still being concluded, however from the work completed to date there is nothing to indicate this would adversely affect the overall opinion. The Financial Systems audit will also enable us to complete our testing in respect of a legacy 20/21 partial assurance rating in respect of credit control and enable us to report back to the next relevant committee.

Control advice in respect of changes to the processing of expense payments was given as part of 'emerging risks' and an audit of the process is nearing completion.

Advisory work was undertaken in respect of two attempted bank mandate frauds and a cyber concern, together with a HR issue.

The annual rebates income audit commenced but could not be completed. It would have benefitted from site visits which was not possible in 21/22 but is planned in 22/23.

The HoIAS' views on the ESPO's responses to the coronavirus

Through review of reports and the AGS and attendance at Committee, the HoIAS is satisfied ESPO Management has engaged and protected its employees and customers.

Aside from the partial assurance rating given following the audit of cyber security arrangements, no other significant governance, risk management or internal control failings have come to the HoIAS' attention therefore substantial assurance is given that ESPO's control environment overall has remained adequate and effective.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Consulting audit

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

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

Control Environment

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

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

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

Continued.....

Caveat

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

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

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Summary progress against 2021-22 audits as at 27 April 2022

Audits 'completed' to at least draft issued stage and/or on-going advisory work/Prior year jobs

<u>Ref¹</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 27 April 2022</u>
22-A	N/A	Continuation of work commenced in 2020-21	To complete any outstanding audits that overlap the financial year	Complete
22-B	GO	Annual Governance Requirements 2020-21	Review of the management self-assessments of assurance in the 2020-21 AGS or any subsequent FRS equivalent	Advisory work complete
22-C	GO	Counter Fraud - Cyber Security	<p>Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment</p> <p><i>(note this also addresses a key potential risk highlighted in the ESPO Fraud risk assessment work undertaken in 20/21).</i></p>	<p>Final Report Issued to Client – Partial Assurance</p> <p>Three 'High Importance' Recommendations related to:</p> <ul style="list-style-type: none"> • Securing and/or decommissioning old legacy systems • Logging/monitoring of the network and key applications • Developing a Cyber Security Incident Response Plan <p>In addition, there were a high number of standard recommendations made and accepted and so due to the volume and nature of the recommendations a follow up piece of work has also been put in the 22/23 plan.</p> <p>This audit took significantly longer than</p>

				originally budgeted.
22-E	GO	Frameworks	Developing any new/developed mirrored offerings/Time taken	Work completed for 21/22 but full coverage and associated report will straddle two financial years
22-G	RM	Risk Management	Risk management policies and procedures are fit for purpose and being consistently applied allowing for an evaluation of ESPO's current level of risk management maturity.	Final Report Issued – Substantial Assurance
22-H	RM	Warehouse	Robust Governance and Management of Risk in the conversion of the Business Case to a Project Initiation Document and associated timetable for delivery.	Minimal on-going advice given due to a change from the original intentions. An audit is in 22/23 draft plan to focus on Governance of the Programme for Additional Warehouse Capacity at the Grove Park Facility.
22-J	RM	Counter Fraud - NFI specific	Results are correctly interpreted and investigated	Consultancy complete – No instances of fraudulent activity were noted from the work undertaken and investigations made however a duplicate payment of £7.3k was identified and had been returned by the supplier concerned and a potential £14.1k duplicate payment could not be confirmed or recovered due to the supplier no longer trading and the business legally dissolved.
22-K	RM	Website Development	Post go live benefits realisation is achieved/'to be' working practices afford adequate internal control and management of risk	Ongoing control advice as critical friend on project board completed in quarter 1. Benefits realisation work is also being undertaken currently

22-L	RM	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 21/22 (not yet published but known to include some deliverables carried over from 20/21 e.g. Replacing e-mail servers into the cloud; future delivery methods etc)	Work being completed in conjunction with IT General Controls in order to maximise synergies and avoid duplication
22-M(1)	RM	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements, continued adjustments as a result of existing the EU/COVID-19 requirements inc service recovery, Supply Chain implications & Compliance with revised procurement regulations, significant loss of business, MTFS targets not being met, Failure to retain staff, M Star framework issues	A walk through of revised expense procedures has been completed in order to enable consultancy advice to be issued in respect of control processes and procedures. (See also job 22-M2 below).
22-M(2)	RM	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. climate change requirements, continued adjustments as a result of existing the EU/COVID-19 requirements inc service recovery, Supply Chain implications & Compliance with revised procurement regulations, significant loss of business, MTFS targets not being met, Failure to retain staff, M Star framework issues	The substantive testing of expenses processed through the system is at draft report stage.
22-Q	IC	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Work completed for 21/22 but full coverage and associated report will straddle two financial years.
22-R (1-4)	IC	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - may include business growth, new	Significant amount of ad hoc work in relation to: <ul style="list-style-type: none"> • 22-R(1) - Overtime Claim

			legislative	<p>(An audit is planned in the draft 2022/23 Pan to review variations to pay).</p> <ul style="list-style-type: none"> • 22-R(2) - Mandate Fraud #1 • 22-R(3) - Email Account Hack • 22-R(4) - Mandate Fraud #2 <p>For the three audits above, a cyber security audit was undertaken in 2021/22 to assess these risks</p>
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Audits in progress

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 27 April 2022</u>
22-I	RM	Credit Control	Follow up recommendations from the 2020/21 report	<p>Testing nearing completion</p> <p>Remaining testing being undertaken in conjunction with the General Financial Systems Audit (See 22-N below) in order to maximise efficiencies.</p>
22-N	IC	General Financial Systems (*)	To discuss with the External Auditor and the ESPO Financial Controller/Consortium Treasurer, but typical coverage includes reconciliations; receivables; payables; payroll and stock	<p>Testing nearing completion – slightly delayed due to External Audit work being undertaken by ESPO Finance Section</p> <p><i>Note: work was only due to commence in the final quarter i.e. Jan 22</i></p>
22-O	IC	IT general controls (*)	The range of controls expected by the External Auditor are well designed and consistently applied.	<p>Testing currently being undertaken. Work slightly behind schedule due to competing demands within ESPO IT Section.</p> <p><i>Note: work was only due to commence in the</i></p>

				<i>final quarter i.e. Jan 22</i>
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Audits not started

None

Deferred/Cancelled Jobs

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 27 April 2022</u>
22-D	GO	Export/ESPO International	Benefit of current developments materialise/proposed future developments are supported through robust business case sign off	To be risk assessed in 2022/23 for continued relevance taking into account the role of the board in sign off
22-F	GO	Key Projects - Strategic alliance(s)	Benefit of current developments materialise/proposed future developments are supported through robust business case sign off	To be risk assessed in 2022/23 for continued relevance taking into account the role of the board in sign off
22-P	IC	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	This will now be deferred into the 22/23 plan to allow COVID regulations/associated employer and supplier procedures to be understood and followed.

None

¹unique reference numbers based on the financial year in question (i.e. '22-A' relates to the first entry on the approved 2021/22 audit plan)

²the three elements of the control environment (governance, risk management and internal control)

³traditionally audits where the external auditor has placed reliance on the work of internal audit

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Requirement	GC	PC	DNC	Notes supporting assessment at 20 June 2022 (bold font = new/updated)
Mission of internal audit	Y			
Definition of Internal Auditing	Y			Need to identify a replacement lead to deliver CRR process
Core Principles	Y			QAIP records the need to better demonstrate quality and continuous improvement
Code of Ethics	Y			By end of June 2022 - Reissue and review self-assessments with newer guidance and reflect WoW action plans
1000 Purpose, Authority and Responsibility	Y			By end of September 2022 - All Charters will need to be reviewed in terms of access to records, building and staff and build in remote auditing protocols
1100 Independence and Objectivity	Y			Risk management audit by Senior Auditor using ALARM template due in autumn AGS process – get Senior Auditor to explore areas to change
1110 Organisational Independence	Y			
1111 Direct Interaction with the Board	Y			
1120 Individual Objectivity	Y			
1130 Impairment to Independence or Objectivity	Y			By end of September 2022 – update Charters for guidance on fraud responsibility at all but City . Add in responsibility for insurance
1200 Proficiency and Due Professional Care	Y			
1210 Proficiency	Y			1 x additionally trained ICT audit resource (now have 3 qualified ICT auditors and another still training). All staff trained in data analytics with a Senior Auditor having overall responsibility. Additional Counter Fraud trained auditor (two in total).
1220 Due Professional Care	Y			Develop staff training on cost v benefit of additional assurance to think through more thoroughly before making recs
1230 Continuing Professional Development	Y			Complete full staff APR by end of September

1300 Quality Assurance and Improvement Programme	Y			Designed & implemented but needs updates on actions
1310 Requirements of the Quality Assurance and Improvement Programme	Y			
1311 Internal Assessments	Y			
1312 External Assessments	Y			EQA was completed in March 2018 'generally conforms'. No desire to f/u early so plan in November 22 for March 23
1320 Reporting on the Quality Assurance and Improvement Programme	Y			Needs to be re-imagined in terms of new normal
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Y			
1322 Disclosure of Non-conformance	Y			
4 Performance Standards	Y			
2000 Managing the Internal Audit Activity	Y			
2010 Planning	Y			Introduced 6 month planning in 2021-22 Needs to link to a strategy document
2020 Communication and Approval	Y			Reported to committees that staffing had improved and at same time stopped delivery to academies
2030 Resource Management	Y			
2040 Policies and Procedures	Y			DA strategy + remote working Audit manual needs updating to incorporate remote working procedures
2050 Coordination	Y			Look for other assurance in ToE and then test it – then draw

				back
2060 Reporting to Senior Management and the Board	Y			Board yes – CMT will be for City and County
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Y			I always inform City and Fire
2100 Nature of Work	Y			
2110 Governance	Y			Need to re-establish performance management in the service
2120 Risk Management	Y			
2130 Control	Y			
2200 Engagement Planning	Y			Move to a consistent ToE + ToEs for grants. Have developed ToE's for special investigations
2210 Engagement Objectives	Y			Need further understanding of Value for money criteria
2220 Engagement Scope	Y			Need a further understanding of significant consulting opportunities requirements especially in light of the change to 'quick response' audits
2240 Engagement Work Programme	Y			
2300 Performing the Engagement	Y			Adopted IIA principles and guidance on remote working. Share guidance on skepticism amongst team
2310 Identifying Information	Y			
2320 Analysis and Evaluation	Y			Everyone in team now trained in basic DA. Senior Auditor is taking the lead and proposing a separate DA group for Midlands Counties
2330 Documenting Information	Y			
2340 Engagement Supervision	Y			HoIAS to re-establish quality checks
2400 Communicating Results	Y			

2410 Criteria for Communicating	Y			
2420 Quality of Communications	Y			Need to definitely improve on concise and timely (agile). Some improvements to constructive review IIA guidance
2421 Errors and Omissions	Y			
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	Y			
2431 Engagement Disclosure of Non-conformance	Y			
2440 Disseminating Results	Y			
2450 Overall Opinion	Y			Will review CIPFA/IIA guidance on consistent opinions
2500 Monitoring Progress		Y		Need to start f/u on ALL recommendations as per EA
2600 Communicating the Acceptance of Risks	Y			implement HoIAS review of any recommendations not agreed

Explanations of 'conformance'

GC – “Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

PC – “Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

DNC – “Does Not Conform” means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Neil Jones, Head of Internal Audit & Assurance Service, Leicestershire County Council 20 June 2022.

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LCCIAS - Quality Assurance Improvement Programme – June 2022 – Annex 4

Role	Responsibilities (& actions required)	Evidence (& actions required)
<p>Head of Internal Audit Service Develop, maintain and report on a Quality Assurance Improvement Programme (QAIP)</p>	<ul style="list-style-type: none"> • Develop and maintain the governance structure for the Internal Audit Service including: <ul style="list-style-type: none"> ○ Internal Audit Strategy approved by Chief Financial Officer (CFO) ○ Internal Audit Charter(s) – revised in line with IASAB changes when required and reported to Committees (action #7) ○ Internal Audit Annual Service Plan ○ Counter Fraud Biennial Work Plan ○ Combined Assurance Model (#8) • Develop and maintain internal audit policy and practice to ensure that they conform to the Mission, Purpose, Core Principles and Definition of Internal Audit, Code of Ethics and the Standards • Undertake an annual PSIAS self-assessment to ensure conformance • Annual self-assessment against the CIPFA Statement on the role of the Head of Internal Audit in Local Government (revised April 2019) • Annually arrange, review and record staff: - <ul style="list-style-type: none"> ○ self-assessments against the Standards' Code of Ethics – reminder to review and update ○ declarations of interest • Ensure independent external quality assessment is performed at least once every 5 years • Maintain an improvement plan on the results of ongoing and periodic assessments of quality • Communicate the results of the QAIP to senior management and the appropriate bodies' committees with responsibility for the 	<ul style="list-style-type: none"> • Roles and responsibilities are clearly identified in job descriptions/person specifications • Audit Charters approved by respective senior management and committees responsible for the internal audit function • Require a Strategy (#1) • Require an Audit Manual (#2) • Annual PSIAS internal self-assessment and QAIP improvement plan • Head of Internal Audit Service annual report and opinion on governance, risk and control includes the results of the QAIP • Balanced Internal Audit Plan - appropriately resourced • Performance framework sets out requirements for people strategy and performance monitoring (#3). • Annual appraisal of performance of HoIAS by AD Finance, Strategic Property & Commissioning (informed by others) and throughout the team using the corporate • HoIAS review of contentious,

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Role	Responsibilities (& actions required)	Evidence (& actions required)
	<p>internal audit function namely: -</p> <ul style="list-style-type: none"> ○ Corporate Governance Committee – Leicestershire County Council ○ Finance & Audit Subcommittee and Management Committee – ESPO ○ Pension Board – Leicestershire Pension Fund ○ Corporate Governance Committee – Leicestershire Fire & Rescue Service ○ Audit & Risk Committee – Leicester City Council <ul style="list-style-type: none"> • Report any significant non-conformance in the appropriate bodies' Annual Report and Annual Governance Statement. • Inform any annual review of the system of internal audit undertaken by the organisation • Undertake regular stakeholder communications to assess the degree to which the Internal Audit Service meets customer expectations (formal and informal) (#4) • induction programmes, training plans (#5) and associated training activities • maintain training records and training evaluation procedures • ensure professional staff are completing their institutes' CPD • the ongoing investment in tools to support the effective performance of internal audit work (for example data interrogation software) • Undertake periodic benchmarking and/or obtain information on operating arrangements and relevant best practice from other similar audit providers for comparison purposes 	<p>sensitive draft reports and sign off</p> <ul style="list-style-type: none"> • Rotation of team supervision / people

Role	Responsibilities (& actions required)	Evidence (& actions required)
<p>Head of Internal Audit Service Obtain periodic assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit standards</p>	<p>Periodic quality assurance assessments Review work performed to ensure conformance with the Mission, Purpose, Core Principles and Definition of Internal Audit, Code of Ethics and the Standards and LCCIAS policies and procedures – to include the following key stages (#6):</p> <p>Audit Process</p> <ul style="list-style-type: none"> ○ Ensure engagements were conducted in accordance with practice. ○ That the Audit Manager allocated the right people, with appropriate skills and experience, to perform the audit ○ Quality of engagement planning and supervision ○ Quality of working papers and evidence to support conclusions and recommendations. ○ Depth/scope of Audit Manager review points ○ Quality of communications of results and the final report ○ Assess how well the audit delivered and added value to governance, risk and control framework of the organisation <p>Performance</p> <ul style="list-style-type: none"> ○ Ensure the work was achieved within budgets (time/pace) ○ Achieved performance standards <p>People</p> <ul style="list-style-type: none"> ○ Ensure individual auditors are trained and developed with appropriate performance evaluations undertaken at audit engagement level and individual performance appraisal are completed 	<ul style="list-style-type: none"> • Recording the outcome of ongoing QA – using standard checklist based on conformance with definition of IA, code of ethics and <i>Standards</i> on a sample of audits. • Monitoring of the outcome of post audit debrief discussions • Monitoring of the outcome of post audit questionnaire feedback – • Monthly 1:1 for Audit Managers • Annual performance appraisal and 6 monthly reviews completed • Individual training and development plans • Service training and development plan

LCCIAS - Quality Assurance Improvement Programme – June 2022 – Annex 4

Role	Responsibilities (& actions required)	Evidence (& actions required)
<p>Audit Managers Obtain on-going assurance that engagement planning, fieldwork conduct and reporting /communicating results adheres to audit practice standards</p> <p>Undertake engagement supervision and review to varying degrees</p>	<p>Ongoing monitoring – quality built into the audit process Quality checks and oversight undertaken throughout the audit engagement ensuring that processes and practice are consistently applied and working effectively. It covers the whole of the audit process but primarily these key stages:</p> <p>Engagement Planning</p> <ul style="list-style-type: none"> ○ Ensure that the audit engagement is allocated with the appropriate resources - right people with the right skills to identify significant issues ○ Provide suitable instructions at the outset of the engagement ○ Risks relevant to the activity under review have been assessed and the scope and coverage of the audit reflects this risk assessment ○ Exclusions are sensible ○ Other lines of defence have been identified and recoded ○ Approve the Terms of Engagement (ToE) prior to the commencement of the fieldwork <p>Fieldwork</p> <ul style="list-style-type: none"> ○ Ensure that audits are conducted as planned and that any (significant?) variations are approved in advance of undertaking them ○ Ensure that appropriate controls and tests are used to deliver the expected assurance results ○ Ensure the correct test score has been applied based on the evidence collated ○ Ensure that findings, conclusions and recommendations are 	<ul style="list-style-type: none"> • ToE agreed with auditors & approved • ToE monitored for delivery – budget and pace • Sign off controls and tests to ensure compatible with the audit scope • Review and sign-off working papers and draft report • Supervision – 1:1 • Completion of review check list • Completion of post audit de-brief • Review of customer feedback • Quarterly progress meetings with large clients County, ESPO, Fire and City reports completed for each client • Annual conflict of interest form & assessment at each audit engagement • Assist HoIAS to follow up on HI recommendations and reporting to Committees • Oversee Business Support Service follow up of audit recs

Role	Responsibilities (& actions required)	Evidence (& actions required)
	<p>adequately supported by relevant, reliable and sufficient evidence</p> <ul style="list-style-type: none"> ○ Ensure that appropriate working papers have been prepared and maintained – with information gathered is adequately described and retained. ○ That the evidence gathered identifies the cause and effect (impact) of the issues identified and their significance. ○ Ensure that work identified in the planning stage has been completed <p>Communicating results / report</p> <ul style="list-style-type: none"> ○ Ensuring that reports are accurate, objective, clear, concise and timely ○ Obtain assurance that key findings have been sufficiently communicated to the client so no surprises at the closure meeting ○ Review and sign off the draft report ○ Ensure high importance recommendations are re-tested to ensure implementation ○ For other recommendations ensure the Business Support Service is following up at the required time and gaining sufficient information to confirm implementation <p>Performance</p> <ul style="list-style-type: none"> ○ Ensure that the work is achieved within the resource budget (time budgets and date span) ○ Sign off Post Audit Debrief with individual auditor at the end of each audit engagement identifying opportunities for improvement at the audit and individual level 	

Role	Responsibilities (& actions required)	Evidence (& actions required)
	Monitor overall performance of team <ul style="list-style-type: none">○ Develop and maintain audit schedule for each client○ Complete quarterly progress reports for each area of client responsibility○ Undertake regular liaison meetings with clients	

Role	Responsibilities (& actions required)	Evidence (& actions required)
<p>Auditors Behave at all times in accordance with the Code of Ethics / Code of Conduct. Conduct all audit engagements in accordance with audit practice standards Promote the standards and their use throughout the Internal Audit Activity Commitment to delivering quality services</p>	<p>Take full responsibility for the sufficiency of audit procedures to find out what could be reasonably found by a prudent and informed auditor.</p> <p>Display due professional care in the performance of their responsibilities – maintaining</p> <ul style="list-style-type: none"> ○ Integrity ○ Objectivity ○ Confidentiality ○ Competency <p>All work conforms to written policies and practice notes, including: -</p> <p>Engagement Planning</p> <ul style="list-style-type: none"> ○ Ensuring right resources used ○ Conduct (or be given by the Audit Manager) a preliminary assessment of the risks to the activity under review – identifying relevant information / potential significant issues ○ Determine the audit approach and scope of the review to enable the objectives of the audit engagement to be achieved and an assurance opinion to be given on the governance, risk and control arrangements of the activity. Agree this approach and the audit work plan with Audit Manager ○ Co-ordinate / correlate audit work with other sources of assurances ○ Develop and agree Terms of Engagement client brief – clearly articulating the assurance we intend to provide – scope of our work and any limitations (what we are not going to review) – 	<ul style="list-style-type: none"> • Completion of relevant case management systems sections • Working papers <ul style="list-style-type: none"> ○ System notes – with linked relevant information ○ Testing strategy / results ○ Review • Draft report • Post Audit De-Brief Document • Post Audit Questionnaire • Records of 1:1 and individual improvement actions • Performance appraisal including training and development plan • Completion of CPD where required (#7)

Role	Responsibilities (& actions required)	Evidence (& actions required)
	<p>ensure the ToE meets client expectations</p> <ul style="list-style-type: none"> ○ Adhere to planning practice standards <p>Fieldwork</p> <ul style="list-style-type: none"> ○ Adhere to working paper practice standards ○ Ensure that sufficient and relevant work has been performed to substantiate findings and that the information has been effectively reported to the client on a timely and factual basis. ○ Ensure that the steps identified in the audit plan and audit testing programme have been completed effectively ○ Identify sufficient, reliable, relevant and useful information to achieve the engagement objectives ○ Document relevant information to support testing results and the report ○ Ensure that conclusions and results are based on appropriate analyses and evaluations - should be factual, adequate and convincing so that a prudent, informed person would reach the same conclusions of the auditor. <p>Communicating results / report</p> <ul style="list-style-type: none"> ○ Adhere to reporting practice note ○ Communicate significant findings during the audit so no surprises at the closure meeting discussing the draft report ○ Draft audit report – meeting the engagement objectives and scope giving appropriate conclusions, recommendations and action plans. Provide an overall assurance opinion based on significance and importance of the finding / activity. ○ Ensure that reports are accurate, objective, clear, concise and timely 	

LCCIAS - Quality Assurance Improvement Programme – June 2022 – Annex 4

Role	Responsibilities (& actions required)	Evidence (& actions required)
	Performance <ul style="list-style-type: none"> ○ Audit engagement is delivered on time and within budget ○ Post audit debrief (PAD) is completed for all audit engagements identifying what's gone well, lessons learnt and any opportunities for improvement ○ Post Audit Questionnaire is completed for all audit engagements obtaining customer feedback ○ Audit work plan developed and agreed with Audit Manager 	

Role	Responsibilities (& actions required)	Evidence (& actions required)
External Suppliers Deliver agreed internal audit reviews	Developed and maintain Quality Assurance Improvement Programme Audit Process <ul style="list-style-type: none"> • Provide draft report and supporting working papers • Expected to follow our client engagement process and complete quality assurance documents 	Confirmation that they conform to the PSIAS Complete: <ul style="list-style-type: none"> • planning document • Audit check list • Review check list • Obtain feedback - Post Audit Questionnaire • Post Audit Debrief

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Actions (due date) following review and revision of QAIP in June 2022

1. Devise internal audit strategy to be approved by Chief Financial Officer (**September 2022**)
2. Create an internal audit manual that adequately defines policy and procedures (**December 2022**)
3. Revise IAS performance framework in line with County corporate requirements (ongoing)
4. Develop more regular formal assessments of IAS quality and value with key stakeholders (**September 2022**)
5. Re-introduce formal training plans in APR process (**July 2022**)
6. Re-introduce HoIAS periodic second review of engagement records (**June 2022**)
7. Revise Charters to reflect remote working and PSIAS controls around counter fraud (**September 2022**)
8. Develop an assurance map (**December 2022**)

Neil Jones, Head of Internal Audit & Assurance Service

21 June 2022

Declan Keegan, AD Corporate Resources (Finance, Strategic Property & Commissioning)

21 June 2022

MANAGEMENT COMMITTEE – 29 JUNE 2021

PROGRESS UPDATE

REPORT OF THE DIRECTOR

Purpose of the Briefing Note

1. The purpose of this update is to inform Management Committee of the actions and progress made since the last Management Committee meeting held on 16 March 2022.

Financial Performance – 1 month to April 2022

Summary

Year to April 2022 – Period 1					
£m	Actual	B/(w) than Budget		B/(w) than LY	
Stores Sales	2.3	0.3	13.4%	(0.3)	(10.8%)
Direct Sales	1.4	0.4	34.1%	0.3	30.1%
Framework rebate income	1.1	0.0	4.7%	0.3	38.8%
Total Sales (Exc Gas)	4.8	0.7	16.5%	0.4	8.2%
Stores Margin %	32.8%	2.1%		1.6%	
Directs Margin %	14.1%	(0.7%)		2.7%	
Total Gross Margin	2.7	0.2	8.9%	0.9	51.7%
Total Expenditure	2.0	0.0	0.4%	(0.2)	(10.7%)
Trading Surplus	0.7	0.2		0.7	
Trading Surplus %	13.6%	3.2%		13.9%	

2. One month to April, **a surplus of £0.7m has been made which is £0.2m better than budget.**
3. Following the launch of the new catalogue on 1 April trading has performed well with **early volumes being ahead of budget.** This is despite catalogue selling prices being increased by more than normal (as part of our planned pricing strategy) due to the high levels of inflation on the cost of goods that we have experienced. Rebate income from our frameworks is in line with budget.
4. The surplus is £0.7m better than last year. Directs are ahead by £0.3m as we entered 2022/23 with a better pipeline of orders (remembering last year schools were closed until March 8th) and Rebate income is ahead by £0.3m, also benefitting post Covid.
5. Costs continue to be tightly controlled with expenditure of £2.0m in line with budget.
6. For the full year, the budget is a surplus of £5.7m. April trading has clearly been good and there remains further opportunity in rebate income given inflation and

the great 21/22 final outturn. However, we remain cautious about the impact of increasing cost of goods and a likely higher pay award than budgeted for staff linked to the increased cost of living. (The budget assumed a 2% pay award and each additional 1% costs £140k).

7. Considering all this, **our latest guidance for the full year is a trading surplus of £5.7m (= budget).**

Sales and Margin

Sales and Margin						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Stores Sales	2.3		0.3	13.4%	(0.3)	(10.8%)
Direct Sales	1.4		0.4	34.1%	0.3	30.1%
Rebate income	1.1		0.0	4.7%	0.3	38.8%
Total Sales	4.8		0.7		0.4	
Stores Margin	0.7	32.8%	0.1	2.1%	(0.0)	1.6%
Directs Margin	0.2	14.1%	0.0	(0.7%)	0.1	2.7%
Rebate income	1.1		0.0	(0.7%)	0.3	2.7%
Gas Margin	0.0	2.0%	(0.0)	0.0%	(0.0)	(0.4%)
Catalogue Advertising	0.6		(0.0)		0.6	
Misc	0.0		(0.0)		0.0	
Total Gross Margin	2.7	55.2%	0.2	(3.8%)	0.9	19.6%

Gas						
£m	Actual		B/(w) than Budget		B/(w) than LY	
Gas Sales	1.4		(0.3)	(17.2%)	(0.1)	(7.7%)
Gas Margin	0.0	2.0%	(0.0)	0.0%	(0.0)	(0.4%)

8. Total sales for April 2023 were £4.8m, which was £0.7m better than budget and £0.4m better than last year, with trading starting positively despite ESPO needing to increase prices to higher degree than normal due to the inflationary price increase that we have seen across our range of goods.
9. **Stores sales were £2.3m and £0.3m / +13% better than budget.** Demand for paper-based products has been particularly strong due to some supply challenges in the market driving customer demand to 'stock up' and also against a backdrop where further price increases are expected. Sales are lower than last year with schools, but many schools reopened from a major period of lockdown on 8th March 2021 with March/April/May 2021 benefitting from a release of pent-up demand.
10. **Gross profit margin % for Stores at 32.8% is ahead of budget,** mainly due to timing, with April not seeing the full impact of supplier price rises due to the stock we hold in the warehouse being purchased last year at lower cost. The budget, set in January 2022, makes assumptions about the level of cost inflation we will see this year and this is being monitored and evaluated on a regular basis. We have seen the expected high level of supplier price rises materialise, with further increases being expected which will put additional pressure on budgeted gross profit margin for the full year. However, strong volumes in the early part of the year are currently mitigating this risk.

11. Global supply challenges from issues such as Covid and the war in Ukraine continue to impact stock availability, which has settled at 96%. Whilst lower than pre-Covid levels this appears to be the new realistic baseline, although through April and May Paper availability has been an issue globally and ESPO's team has worked exceptionally hard to secure product for our customers. Product availability is closely monitored and managed to fulfil customer orders as promptly as possible. These issues affect the entire market, not just ESPO, and we have seen competitors affected in a similar way. We have been careful in keeping customers up to date and where necessary raising awareness of the issues in global supply.
12. **Directs sales were £1.4m and are £0.4m ahead of budget.** We saw strong orders (and sales) through 21/22 and we entered 22/23 with a strong pipeline of orders. From a product perspective, most categories are ahead of last year with Furniture especially ahead in April due to the lead times of product (and schools only re-opening from lockdown in March 2021).
13. **Gross profit margin % for Directs at 14.1% is 0.7% behind budget,** but this is largely due to the mix of product sold in April and is expected to normalise as sales increase through the year.
14. **Rebate income of £1.1m is in line with budget** and continuing to perform very well with a wide range of frameworks offered and a good pipeline in place of contracts secured for the future.
15. **Income from our gas service is in line with budget.** This service relates to a customer bill validation service, and also acting as a procurement agent on behalf of customers where we buy their gas on their behalf. These attract a fixed charge and so ESPO's trading surplus isn't exposed to the price volatility seen in the gas market. The customer ultimately bears this risk, but part of the service involves ESPO using our expertise and size to forward buying gas to manage this risk more effectively and in line with the agreed risk profile for the service.
16. Our other income from selling advertising space in the catalogue and misc. income like bank interest are all largely in line with budget.
17. **Overall gross margin at £2.7m is £0.2m better than budget.**

Expenditure

Expenditure			
£m	Actual	B/(w) than budget	B/(w) than LY
Employee Costs			
Staff	1.1	0.0	(0.0)
Agency/Contract	0.1	(0.0)	(0.0)
Total	1.2	0.0	(0.1)
Overhead Expenses			
Transport	0.2	(0.0)	(0.1)
Warehouse	0.1	0.0	0.1
Procurement	0.0	0.0	0.0
Sales & Marketing	0.3	(0.0)	(0.1)
Finance	0.1	(0.0)	(0.1)
IT	0.1	0.0	(0.0)
Directorate	0.0	(0.0)	(0.0)
Total	0.8	(0.0)	(0.2)
Total Expenditure	2.0	0.0	(0.2)
As % of Total Sales Excluding Gas	41.5%	7.0%	(2.0%)

18. **Total expenditure of £2.0m was in line with budget.** We retain a continued focus on strong cost control across all areas.
19. **Expenditure as a % of sales** is one KPI which allows us to measure cost control in relation to sales. At April this KPI was 41.5% and is 7.0% better than budget and shows costs are being controlled in relation to sales activity. (Note that It's more sensitive in April due to schools closing for Easter vacation.)

ETL/Eduzone

20. ETL and Eduzone are ESPOs limited companies which service the private sector.

ETL and Eduzone			
£k	Actual	B/(w) than Budget	B/(w) than LY
Eduzone Sales	32	(23)	(21)
ETL Sales	241	223	231
Total Sales	273	199	211
Eduzone Gross Margin	8	(12)	(11)
Eduzone Gross Margin %	24.6%	(10.8%)	(10.9%)
ETL Gross Margin	26	16	23
ETL Gross Margin %	10.9%	(44.6%)	(20.6%)
Total Gross Margin	34	5	13
Eduzone Expenditure	(34)	4	(3)
ETL Expenditure	(20)	(14)	(17)
Total Expenditure	(54)	(10)	(20)
Trading Surplus	(20)	(5)	(7)
Trading Surplus %	(7.2%)	12.9%	12.8%

21. ETL, our business serving international and private sector customers, has started particularly strongly mainly due to a large furniture contract won worth £0.5m which will be fulfilled over Q1, and whilst generating incremental margin (£), as it is furniture the margin % is slightly lower than normal/budget.
22. Eduzone, our business focusing on early years in the UK, is slightly behind budget, with sales from one larger customer stalled whilst our 22/23 prices are reviewed and agreed.
23. Overall margin £ is largely in line with budget and costs are being controlled. ETL costs are higher due to its increased sales.
24. Overall, a £20k loss has been generated to the end of April which is largely in line with the budget target.

Full Year Expectation

25. The full year budget is a surplus of £5.7m and whilst we are very early in the financial year there are several risks and opportunities emerging. The most significant are:
 - a. **Product cost inflation.** ESPO is well known for trying to hold the pricing set out in our catalogue to give customers certainty and an ability to plan their own budgets across the year. High levels of product cost inflation either create additional risk to our budgeted surplus (if we absorb them) or require some deviation from catalogue pricing. As usual, we are trying to protect our customers (which are mainly schools) from the impact as much as we can.
 - b. **Framework income via rebates** performed well in 21/22 and our baseline for 22/23 starts approximately £0.3m higher than we had assumed in the budget. In addition, our framework income is likely to benefit from inflationary increases that suppliers apply, de-risking some of the above risk.
 - c. **The local Government pay award.** Back in January we budgeted for a 2% increase for 22/23 and with the very real pressures on cost

of living workers across the UK are facing it is probably a high pay award will be payable. Each additional 1% would cost ESPO £140k.

26. Considering all this, our guidance for the full year remains the budget, of a £5.7m surplus.

ESPO Operational Progress

27. In April ESPO's distribution centre picked and dispatched 81,654 order lines, valued at £2.27m and the transport fleet with couriers made 11,638 deliveries weighing 638k kgs. Warehouse picking was performed at a rate of 29 lines per hour against our target of 32 reflecting the disruption to the order-flow of the Easter holidays. The error rate detected by QA was 4% against the budget of 3%. The average order value for stock orders in April was £172 against a budget of £157. Operational and IT costs year to April were £893k against a budget of £946k. Stores sales were 13.4% higher than budget driving slightly higher transport costs.
28. The Customer Services (CS) team handled 4,582 calls across the four customer service lines. In terms of call response, the average speed of answer was 42 seconds against a target of 30 seconds. This reflects the increase in calls in the Directs channel checking on delivery times and the current vacancies in the CS team. The team processed 16,421 customer orders valued at £2.507m. Online and electronic converted orders were at 66% of the total reflecting an increasing trend towards digital ordering via e-catalogues or through the web. Direct orders currently valued at £1.79m are being managed from suppliers to customers. Late suppliers are being expedited by the customer services team. Call performance remains positive, with over 91% of calls answered overall, compared to 83% in March.
29. Stock availability on the top 1,000 lines achieved 98.1% in April, stock value was £8.3m with a stock turn of 5.9. We are anticipating future availability issues with paper and card related products with subsequent price increases due to industry-wide production capacities. Customers are being kept informed of the latest stock availability through the web site. ESPO continues to rely on external storage to manage its stock holding requirements. This includes exercise book stock held at (Kent County Supplies) KCS in Maidstone and by its printer in Poland.
30. Facilities management in April included a number of scheduled repairs to the in-rack sprinklers and high-bay racking; mobile and fixed printers; warehouse lighting; warehouse doors and emergency call point repairs. Upgrades were made to the building lighting with LED replacements and the fire damper between the warehouse and offices was serviced. There were also inspections to fire safety system, pest control, intruder alarm and CCTV system with various repairs to and maintenance of equipment throughout the Grove Park facility.
31. There was one health and safety incident in April where a forklift truck driver on nights injured a hand whilst moving a wooden pallet which required minor first aid treatment. A 'speed awareness' training package was given to drivers at the

Welsh out-base and Leicester staff will receive this training over the coming weeks. ESPO has taken delivery of two battery powered goods vehicles as part of a government funded trial and the charging points are currently being installed. Covid is now being managed in the same way as other respiratory infections such as flu as part of Governments “Covid-19 response: Living with Covid-19” guidance. Communications and guidance were issued in relation to the change to working arrangements in-light of the Government announcement. Staff were advised that the Grove Park facility is now fully adapted to accommodate hybrid working.

32. The IT helpdesk handled 480 enquiries with a 100% satisfaction rating from internal customers. Following an audit recommendation, a procurement process was undertaken to select a cyber-security partner and Nettitude was formally selected as our supplier of Cyber Incident Response Services and they will provide specialist support and guidance to help us mitigate our risk in this area. Our mix of “Endpoint Protection” tools (e.g., antivirus, firewall etc. on laptops and desktops) have been revised, with McAfee and Sophos being de-commissioned, and Microsoft Defender being installed on all devices.
33. We have taken the opportunity to review our support arrangements for Infor System 21 and IBM AS400 which puts less day-to-day technical reliance on the IT team. Through a service agreement we will be utilising IMS for System 21 support and Recarta for IBM support. Approval was granted to employ two IT apprentices to the IT Service Desk. This opens the door to moving additional work from Application Support into the Service Desk and is one of a number of strands of activity that are looking to re-balance the workload within the overall team.
34. Significant progress has been made in the transport planning project with middleware being written for extracting delivery data from System 21 for input into the Roadshow scheduling system. Eventually this process will be automated allowing customer data to be uploaded into the scheduling system which will create a daily transport schedule offering greater operational and service benefits.
35. The project to extend the Grove Park warehouse, is now well underway. The pre-application work is well advanced with Pick Everard appointed as our design and project management partner under a SCAPE framework agreement. A project board has been created and the project budget with tolerances has been agreed. Work is now underway preparing for planning permission and construction contractor procurement with an expected completion of the project in Q2 2024. A separate progress report is included in this month’s management pack. Further updates will be provided to Management Committee as the project progresses.

Staffing

36. Sickness absence continues to be well managed, and covid infection rates have now reduced to zero at point of authorship. Staff numbers in the office have continued to increase in line with national guidance, and safe working arrangements remain in place to ensure that the potential of any work-based

outbreak is reduced as far as is practicable. Reminders have also been provided to staff on the steps they need to follow if they test positive for Covid, to ensure that everyone remains extra vigilant. Guidance will also be issued on how to assist anyone who shows symptoms for 'monkeypox'. Whilst this currently appears to be highly unlikely to have the same impact as covid, it is important that we provide assurance for staff who may be concerned.

37. The national negotiating body for Local Government pay have now received a submission from the Trade Unions for this year's cost of living increase. Their request is for a minimum increase of £2,000 or the current rate of RPI (whichever is greater) on all spinal column points. In addition, they have also asked for a review on the current mileage rates, the introduction of a homeworking allowance, a reduction in the working week and an increase in annual leave. The LGA are now seeking feedback from Local Authorities before providing a response. All parties are aiming to resolve this negotiation quicker than last year, so that issues such as recruitment and turnover are not negatively impacted.
38. Leicestershire County Council are aiming to introduce a new recruitment process by October 2022. This will allow ESPO to become more flexible in terms of job applications and also ensure that the entire recruitment process is completed as quickly as possible.

ESPO Risk and Governance Update

Health, Safety, Wellbeing and Facilities Management & Corporate Risk Register

39. The ESPO Leadership Team held its quarterly review of Health, Safety and Wellbeing and Major Risk Records (MRRs) and the top risks are attached at Appendix 2.

Resources Implications

None arising directly from this report.

Recommendation

Members are asked to note and support the contents of this report.

Officer to Contact

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Appendices

Appendix 1: Balanced Scorecard
Appendix 2: CRR extract

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Management Summary Apr 22

Management Summary

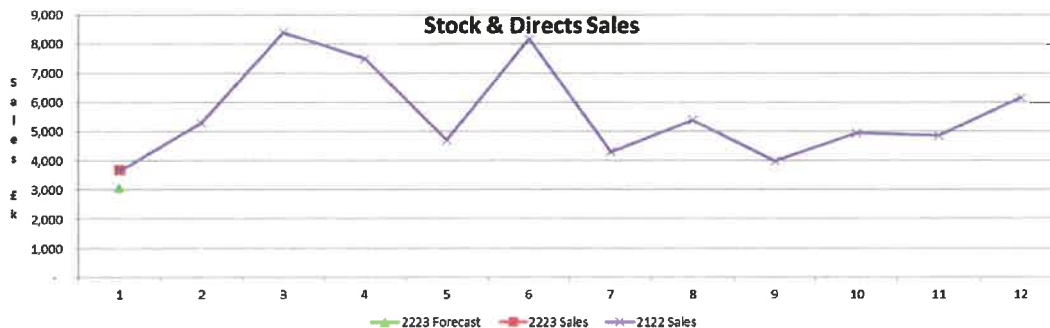
	Actual	Budget /LY	Var	YTD Actual	YTD Var
Stores Sales	£2,281,783	£2,011,589	↑ 13.4%	£2,281,783	↑ 13.4%
Direct Sales	£1,426,623	£1,064,054	↑ 34.1%	£1,426,623	↑ 34.1%
Rebate plus fee income	£1,105,564	£1,056,048	↑ 4.7%	£1,105,564	↑ 4.7%
Total Sales (Exc Gas)	£3,437,990	£4,704,357	↓ -26.9%	£3,437,990	↓ -26.9%
Stores Margin %	32.80%	30.70%	↑ 2.10%	32.80%	↑ 2.10%
Directs Margin %	14.12%	14.81%	↓ (0.69%)	14.12%	↓ (0.69%)
Total Gross Margin Inc Consumables Cost	£2,655,012	£2,436,939	↑ 8.9%	£2,655,012	↑ 8.9%
Total Expenditure	£1,998,125	£2,005,683	↓ -0.4%	£1,998,125	↓ -0.4%
Surplus	£656,887	£431,256	↑ £225,631	£656,887	↑ £225,631
Net Profit Margin %	19.11%	9.17%	↑ 9.94%	19.11%	↑ 9.94%

	Actual	Budget /LY	Var	YTD Actual	YTD Var
Eduzone Sales	£36,432	£55,297	↓ -34.1%	£36,432	↓ -34.1%

Customer Order KPI's

	TY YTD	LY YTD	Var
AOV	£171.79	£156.79	↑ £15.00
Prop of orders over £15	97.2%	97.2%	↑ 0.05pp

Graph - Sales vs. Forecast



HR

	Actual	Target	Var
Sickness Absence Rates *	0%	0.0	↓ 0.0
No. of Apprentices	4	7	↓ -3.0

Comment: Sickness Absence Rates currently unavailable

*Average days lost per FTE in a 12 month rolling period

Mandatory Training Completion	Actual	Target	Var
Fraud	93%	90%	↑ 2.88pp
Data Protection	83%	90%	↓ -7.29pp
Equality & Diversity	91%	90%	↑ 0.85pp
Health & Safety	91%	90%	↑ 0.53pp
GDPR	78%	90%	↓ -11.69pp

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ESPO

Risk Ref	Category	Risk Description	Consequences / Impact	Risk Owner	Impact	Likelihood	Score	Risk Action / Tolerate / Transfer / Terminate	List of Current Controls / Actions Embedded and operating soundly	Risk indicators to be used to monitor the risk	Impact	Likelihood	Score	Risk Action / Tolerate / Transfer / Terminate	Further Action / Additional Controls	Action Owner	Action Target Date	Q1 Comments / Updates	Inherent Risk	Residual Risk
25	Stores Trading	Increased competition including Amazon & CCS	1. Possible implications on business volume, reputation, new business and on trading results in the Catalogue business 2. Through collaboration with CCS and YPO, CCS is dominating the management of such contracts (MFDs) including the management of the rebates; ensuring security of the income stream is becoming a threat to ESPO's business model. 3. Amazon: moving deliberately into the public sector space, and focussing on education as a key area, Amazon have expressed interest widely within the market place at becoming more than an ad hoc supplier to schools of all levels, expressing their intention to partner with, or secure suppliers who have tailored offering for the sector.	AD Procurement & Commercial	4	4	16	Treat	1. Working with suppliers and customers to improve the 'offering', facilitating this relationship through capturing and using business intelligence and managing this 'knowledge'. 2. Continue seeking efficiencies through international sourcing. 3. Amazon: Continue to market our 'not for private profit' credentials and continue to craft our ranges to offer the very best solution to all tiers of education from our stock and directs position. To explore collaboration with our PBO neighbours to ensure opportunities are not missed in securing market share dominance on key lines such as paper, glue sticks and exercise books. 4. Website Development. 5. Use of BESA benchmarking for ongoing market share data. 6. Continue to make frameworks easier to access. 7. Develop ETL framework offering for diversity of customer base.	1. Changes to key customers' buying (as highlighted at Weekly Trading) 2. Fluctuations in rebate income (as highlighted at Weekly Trading) 3. Stalling of e-commerce uptake trends (as highlighted in IT update) 4. Amazon: Reduction in traditional stationery and direct electrical item sales at category level. 5. Termini customer research and feedback 6. Competitive mapping for frameworks, including new threats from Bloom and CCS expansion. 7. Staff migration to competitors.	5	2	10	Treat	1. Review loyalty scheme – increased requirement on income streams 2. Robust sales and marketing strategy to be developed to reflect the heightened competition in this sector and to support the revised MTFs. 3. Review of Customer Offer 4. MATS package 5. Review termly research. 6. Keep a close eye on developments in the market & particularly on CCS & Amazon. 7.Continue to look out for member authority frameworks that duplicate ESPO's offering. 8. Keep abreast of speculative frameworks that could take business from ESPO frameworks. 9. Continue to explore and maximise exporting opportunities. 10. Review approach to recruitment and retention of key procurement/commercial staff. 11. Consider bidding for the CCS tail spend tender issued in June 2021	AD Procurement & Commercial	Ongoing	01/03/22 Reviewed - no updates.	High	Med
48	IT and infrastructure	Strategic IT Succession Planning - imminent departure of key staff	1. Unable to manage systems portfolio 2. Business needs not met 3. Service to customers deteriorates 4. Loss of sales & profits 5. Staff morale adversely affected	AD Operations & IT	4	4	16	Treat	1. Review IT strategy and set out IT ambitions in context of business planning and review skills and organisation in IT accordingly. 2. Create a new structure that enables staff to grow into more senior roles, 3. Work with outside partners to deliver some of the technical support functions required.	1. Budget review 2. HR assessment of current structure 3.Process mapping and IT support/automation 4. Delivery of succession plan	4	3	12	Treat	May 2022. Replace systems that are vulnerable to individual staff leaving. Move support services out of ESPO to partners. Created two new Apprentice roles to create more bandwidth & succession. Reduced probability to 3.	AD Operations & IT	N/A	Mar 2022 Staff succession planning being considered to minimise risk and increase resilience for any possible leavers or sickness. May 2022 Agreed to recruit two apprentice positions at Grade 6 to support the Help Desk allowing bandwidth for supporting IT staff	High	Med
78	Supply chain	Supply chain risk - including corona virus, Brexit and Conflict in Europe	1. 'Stock supply shortages for products or components that are made in Far East. With consequential effects in UK manufacturers production capability. 2. Staff shortages in all ESPO functional areas due to high sickness rates. 3. School closures to reduce infection spread. 4. Overall economic impact on ESPO's business activities due to sluggish restoration of international supply chain. 5. Buying price risk due to increased freight costs may mean a reduced margin. 6. Driver shortage in the market could affect deliveries to ESPO and our ability to deliver to our customers on time. • Staff complacency and not adhering to controls in place. • All risks as identified previously coming to fruition due to further restrictions introduced. • Supply chain disruption in the event of further lockdowns both in UK and Worldwide. • On-going school closures / partial closures.	Director	4	4	16	Treat	1. 'Set up an internal team tasked with managing ESPO's activities and communications in response to the health crisis. 2. Monitor updates and advice from WHO and UK government . 3. 'Maintain regular communications with customers, staff and stakeholders. 4. ESPO continue to promote good handwashing and hygiene practices and have increased the availability of antibacterial wipes and cleaning equipment. Contracted cleaning contractors disinfect door handles and hand rails as part of our contract. 5.Should a member of staff contract coronavirus ESPO will liaise with PHE directly at County Hall and follow any recommendations. 6. Should isolation be required our Smarter Working Policy provides guidance on staff working from home and where necessary individual risk assessments will be completed. In the event there is a requirement for an extended number of staff to work from home all available lap-tops provide to staff across the business will be recalled and distributed accordingly. 7. Assess suppliers shortages through daily phone contact by Stock Optimisation team. 8. Work closely with staff agency partners to source staff across the logistics, procurement and financial sectors. 9. Continue to manage supply chain risk through Supply Chain Panel, PAG and CMG. 10. CMG and Contracts Panel will be made aware of price increases and impacts assessed by Finance 11. Aim to resist price increase 'within year' 12. Mitigate increases through competition, re-sourcing, extensions	1. Weekly stock availability reports with supplier shortages and failed customer orders. 2. Weekly staff sickness records attributable to the coronavirus. 3. Weekly trading analysis • Continued enforcement of existing controls by managers • Continued staff briefings and reminders. • On-going Covid-19 secure monitoring by ESPO Health and Safety Advisor and LCC.	4	3	12	Treat	1. Align staff policies to LCC guidelines. 2. Assess trading impact on financial forecasts. 3. Understanding of alternative sources of catalogue products. 4. Regular meetings of the internal team 5. Ongoing communications with all relevant parties through web site, weekly comms and formal reports. 04.03.2020 ESPO update on Coronavirus Report discussed at Mgmt. Committee. 06.03.2020 Teleconference with LCC. • All risk assessments and guidance fully aligned with LCC. • Internal meetings took place regularly during height of pandemic. Frequency reduced due to new 'BAU'. Would resume if required. • Comms on-going • Forwarding work on building modifications and a new people strategy to support new ways of working.	Director	Ongoing	02/09/21 Reviewed - no updates.	High	Med
79	IT and infrastructure	IT Cyber Security. Range of cyber security threats (Note - separate IT specific risk register maintained and overseen by internal ITDG committee)	Failure to adequately protect ESPO networks, systems and data from malicious attack could lead to a range of potential consequences, including; financial; reputational; operational; legal impacts or other losses.	AD Operations & IT			20	Treat	Range of protections/controls in place, including (but not limited to): 1) Firewalls (outer defences, controlling the border of ESPO network) 2) Automated Threat Protection system (assesses various incoming data (e.g. emails) for potential threats) 3) Antivirus software (Prevents known viruses from executing on ESPO devices) 4) Authentication systems (Controls who can access ESPO systems and data) 5) Staff education (Reduces risk of successful phishing attack) 6) Anti-Ransomware backup solution (prevents hackers from encrypting our backups) 7) External security controls Audit (Highlights areas of concern in ESPO security systems) 8) Penetration testing (probes the ESPO network for vulnerabilities) (Needs further expansion/detail)	1) Firewall logs (contain details on network traffic, including hostile attacks on the ESPO network) 2) Firewall Reports (Daily, weekly, monthly reports on network traffic) 3) External security support partner monitoring (Various support partners issue regular threat alerts) 4) various event logging - systems that monitor and alert on potential concerns (this is a weak area for ESPO and will be reviewed) (Needs further expansion)	4	4	16	Treat	IT action plan created and enhanced following the cyber audit by LCC. This includes controls in place, and enhancements, including: - Creation of cyber security roadmap, specific risk register and incident response processes - New remote working policy including multi-factor authentication, revised password policy and technical measures for device authentication. - Penetration Testing - Disaster recovery policy, testing and third party support - Staff training and to improve awareness, competence and enhance the positive culture of reporting of issues/mistakes - Contracts with specialist 3rd parties to provide regular technical and emergency support - Working towards 'CyberEssentials+' accreditation - Maintenance and development of internal security procedures (e.g. the 2022 version upgrade of our ERP system)	AD Operations & IT	Q1 2021/ongoing	31/05/22 Cyber Incident Response Service now in place with Nettitude. Response plan developed. 31.5.2022 Staff directed to complete Cyber & Fraud awareness training on LCC Learning Hub. 31.5.22 New Microsoft Defender software rolled out across the estate, reports & alerts when software needs updating to ensure devices are kept up to date.	High	High
80	Procurement - Trading	The Green Paper for Transforming Public Procurement contains areas of potential risk for ESPO. Lack of clarity around proposals at this stage adds to the concern. Main areas of concern are: Proposal for more flexible procurement procedures may devalue the protection afforded by frameworks. Customers may decide to procure themselves. More flexible procedures lacking detail - risk to ESPO if it attempts to pioneer use of these. Increased transparency rules bring greater administrative and compliance burdens and unclear expectations from Cabinet Office exposes contracting authorities to litigation risk.	Customers may choose to undertake their own procurements and not use frameworks - fall in rebate income. Risk of court challenge if new procedures used incorrectly. Current procurement structure may need reassessment to ensure compliance with transparency rules. Risk of being sued for inappropriate transparency or for not being transparent enough.	AD Procurement & Commercial	5	3	15		Monitoring contracts finder/ find a tender and closer monitoring of customer procurement pipelines Better engagement through CRM'S Continued engagement with legal advisors to gauge customer tendencies Canvass opinion from member authorities to understand what it means to them/what their intentions are. Manage customer messages to intensify the 'safe framework' message. ESPO stick with Open Procedure until new flexible procedures are clarified and tested. Ensure procurement team is adequately resourced to ensure transparency compliance. Create a Transparency/Governance unit within procurement. Update processes & procedures to reflect new requirements.	Fall down in number of customers using our frameworks. Insufficient resource to manage increased administration required.	5	3	15		1. Develop ESPO's procurement strategy to take account of the newly released National Procurement Policy Statement 2.Work closely with LCC and other PBOs to develop joint approach. 3.Through chairmanship of the PBO forum ensure that representatives from the Cabinet Office attend to provide regular updates on policy in relation to the Procurement Bill developmental 4. Ensure that ESPO has representation on the planned Cabinet Office training advisory body for new procurement rules - push for central funding. 5. Put in place an ESPO procurement steering group to support the transition to new ways of working 6. Ensure adequate legal resource is in place from LCC to support the transition to new procurement rules.	AD Procurement & Commercial		01/03/2022 - additional control added 26/05/22 Procurement Bill presented in Queen's Speech confirming changes to rules. Previous Risk assessment remains valid.	High	High
86	Governance and financial	Inflationary financial risks	Inflationary pressures in a number of areas for a range of reasons (utilities, fuel, containers, supply chain fragility) may impact on delivery of the MTFs and create additional risk/complexity.	AD Finance	5	4	20	Treat	1. Ongoing discussions with suppliers to understand potential impact of cost pressures with commercial team attempting to mitigate as far as possible via negotiating or alternative sourcing. 2. Detailed work on ESPOs pricing strategy to plan how price rises are passed on to customers or absorbed by ESPO. 3. Update of MTFs under a variety of scenarios to understand potential business impact of inflation 4. Forward purchase of gas and electricity needs 5. Monthly financial analysis of product category margin % to identify issues in pricing 6. Monthly Financial Performance Pack reviewed by LT 7. Weekly sales and trading reporting and discussion by LT to understand trading and possible impact of price rises once adopted.	1. Gross profit % 2. Trading Surplus and variance to Budget 3. Management accounts and variances to budget 4. Weekly trading results 5. Customer feedback (including Feefo)	4	4	16	Treat	1. Develop benchmarking solution to ensure ESPO has sufficient information to remain competitive on pricing 2. Monitor pricing and product margin to understand inflationary pressures and evaluate impact on pricing strategy. 3. Ongoing re-forecast / update of our 'outturn' with scenario modelling	AD Finance	Ongoing	23.5.22. Risk increased from amber to red as a result of: - Higher levels of supplier price increase requests being seen than budgeted - Shortage of paper affecting volumes on a key category - Probably higher pay award given cost of living pressures. (2% budgeted, 4% possible = £0.3m impact)	High	High
88	IT and infrastructure	Framework CRM database - Supporting £9M+ rebate and £2.50m+ customer spend risk of high dependence on bespoke ESPO developed system and knowledge with one individual within IT.	ESPO risks are: 1. Reduced visibility of framework sales data/MI, by customer/sector etc. 2. Reduced ability to forecast rebate income ranges. 3. Potential to adversely impact rebate income. 4. Increased manual workload for procurement teams. 5. Member dividend is based on top frameworks which will not be ascertainable if there is no access to the database. 6. Current database doesn't hold framework details on MSTAR, Washroom Services and CCS collaborations due to difficulties with entering data.	AD Commercial	5	4	20	Treat	1. Tested process for system use. 2. Some data is held within procurement teams at supplier level only. 3. Finance and Commercial teams hold high level framework rebate information. 4. Spirit project to expand data management is currently underway.	1. Actual income to be monitored against forecast and variances reviewed. 2. Delays in provision of MI and/or agreement on rebate levels with suppliers. 3. Reviews between Commercial team and Procurement teams. 4. Reviews between Commercial and Finance team. 5. Status of the Spirit project.	4	3	12	Treat	1. Implement new Spirit system. 2. Build a centrally held pipeline for customer spend. 3. Consider development of a supplier portal for uploading of MI from 2,500+ suppliers. 4. Consider automation of raising supplier invoices via Spirit CRM. 5. Consider business wide rollout of a CRM system. 6. Consider appointing a supplier to provide a rebate portal.	Head of Commercial		07/03/2022 New Risk	High	Med

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