



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield, Leicestershire on Wednesday, 11 October 2023.

PRESENT

Cllr A. Coles – Peterborough City Council (in the Chair).
Cllr S. Rawlins – Lincolnshire County Council
Mrs M. Wright CC – Leicestershire County Council

Apologies

Cllr P. Butlin – Warwickshire County Council
Cllr. A. Jamieson – Norfolk County Council
Cllr. N. Shailer – Cambridgeshire County Council

Attending virtually

Cllr. G. Peck – Norfolk County Council

137. Election of Chairman.

Councillor Andy Coles was appointed Chairman for the Municipal Year ending May 2024.

Councillor A Coles in the Chair

138. Minutes of the previous meeting.

The minutes of the meeting held on 15 February 2023 were taken as read, confirmed and signed.

139. Declarations of interest.

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

No declarations were made.

140. Urgent items.

There were no urgent items for consideration.

141. External Audit of the 2022/23 Financial Statements.

The Committee considered a report from the external auditors, TC Group Limited, covering the 2022/23 Financial Statements, together with a draft letter of representation from the Consortium Treasurer. A copy of the report marked 'Agenda Item 5' is filed with these minutes.

The Chairman welcomed Richard Buckby from TC Group Limited to the meeting.

Richard Buckby explained that an unqualified audit opinion would be issued and highlighted that this had been a good, clean audit. No significant control weaknesses were identified and there were no material adjusted or unadjusted audit differences. He

went on to explain that only one item had been identified as a recommended control improvement and this related to reconciling general ledger revenue to sales/outputs in the VAT return. It was recommended that this is carried out on a quarterly basis and not just at the end of the year.

Arising from the discussion the following points were made:

- i. The ERP system used by ESPO wasn't configured to automatically complete the VAT return, but software was used to support the process. Within the process, there were a variety of checks and reviews to ensure accuracy. Members were assured that ESPO had received numerous routine inspections by HMRC, most recently in 2020/21 without issue arising.
- ii. Regarding stock valuation, the stock system valued each item at cost and, as is normal for most trading businesses, provision for the risk that some stock items may not sell above their cost is separately estimated. This provision considers recent sales and allows for a higher discount for slower moving items. This works in combination with any price rises or decreases which may be applied each year.
- iii. At the outset of the audit, the auditors compiled a list of the information required from ESPO officers in order to complete the audit. They also worked closely with the Finance and Sales Teams in order to get a detailed understanding of processes. A good level of detail was provided at the outset of the audit to reduce the number of follow up queries raised by the auditors and the planned timetable was achieved. The process for auditing had changed, with auditors onsite only for the first two weeks, and then clarification and follow-up was conducted by email and phone.

Members commended officers for the pleasing audit with no issues highlighted.

It was moved by Cllr Coles CC and seconded by Cllr. S. Rawlins that the external audit of the financial statements 2022/23 be approved.

RESOLVED:

That the external audit of the financial statements 2022/23 be approved.

142. Internal Audit Service - Annual Report 2022/23.

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

In response to questions, the Head of Internal Audit (HoIAS) informed the Committee that the high importance recommendation related to cyber security identified as part of the audit was now resolved. Members were assured that further audit work would be carried out on cyber security in the new financial year as part of an ongoing commitment to minimising risk.

It was moved by Cllr Coles and seconded by Mrs. Wright CC that the Internal Audit Service Annual Report for 2022/23 be approved.

RESOLVED:

That the Internal Audit Service Annual Report for 2022/23 be approved.

143. Internal Audit Service - Progress against the 2023/24 Internal Audit Plan.

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the 2023/24 Internal Audit Plan. A copy of the report marked 'Agenda Item 7', is filed with these minutes.

In introducing the report, the Head of the Internal Audit Service (HoIAS) informed members that there were no issues to bring to the Committee's attention and that there were no new High Importance Recommendations for inclusion in the 2023/24 plan.

In response to questions, the following issues were raised:

- i. Testing so far had showed that staff were aware of hybrid working arrangements and expectations around this and this would be subject to testing during the audit, which would cover mental health, 121s, as well as progress checks. The hybrid working policy followed that used by Leicestershire County Council.
- ii. External consultants were used to undertake penetration testing on the IT system to test cyber security. Unless this work highlights significant issues that needed addressing immediately, further audit coverage of cyber security would likely be undertaken in 2024/25. Recommendations had been rated high, medium and low; high level concerns would be addressed immediately. A variety of testing and control methods had been put in place with regular staff training.
- iii. Health and Safety Risk Assessments were carried out for the warehouse extension. Operational colleagues worked closely with ESPO's Health and Safety Manager who formerly worked at Leicestershire County Council. Additionally, advice was sought from the County Council.

A number of approaches were used to manage risks and analyse emerging risks, including meetings with ESPO senior officers, adherence with the Internal Audit Guidance and Standards Regulations, and liaison with ESPO Committees. The Internal Auditors explained that the system was quite joined up and efficient. The warehouse extension had been added to the audit plan as a significant piece of work for the coming year.

It was moved by Cllr Coles and seconded by Cllr Rawlins that the progress update received be approved and the following be noted

- a) the addressing of the final high importance recommendations in respect of cyber security; and
- b) that there are no other high importance recommendations within the Committee's domain.

RESOLVED:

That the progress update received be approved and the following be noted

- a) the addressing of the final high importance recommendations in respect of cyber security; and

- b) that there are no other high importance recommendations within the Committee's domain.

144. 2022/23 Financial Statements and Annual Governance Statement.

The Committee considered a report of the Director and Consortium Treasurer which reported on the 2022/23 Financial Statements and the Annual Governance Statement. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

In presenting the report, Director explained that:

- i. the trading surplus previously reported to the Management Committee was a surplus of £5.9m, which was £0.3m higher than budget; it was a good performance year for ESPO. The Financial Statements showed a net profit for 2022/23 of £3.7m. This was different to the Management Accounts due statutory accounts adjustments, mainly pension cost accounting. However, members were assured that this would not affect the dividend paid. Turnover had reached £106m, which was the first time it had exceeded £100m.
- ii. the methodology for calculating the dividend had been agreed by the Management Committee in 2015. As in previous years, ESPO would like to retain an additional £400,000 to build reserves and support the working capital.
- iii. In compiling the Annual Governance Statement, the Consortium Treasurer and Consortium Secretary had been consulted and no significant governance concerns had been raised.

Arising from the discussion the following points were noted:-

- i. The retention of £400,000 was at a level to that retained in previous years. Calculating the level of retention was balanced with having sufficient funds to support the business and also to pay a dividend to Local Authorities.
- ii. All ESPO staff were part of the Leicestershire County Council Pension Scheme, on the same terms as County Council staff. Pension Scheme Valuations were reviewed and took into account current world events. The County Council's Pension Board scrutinised pension investments. The Leicestershire Local Government Pension Scheme (LGPS) was pooled with LGPS Central, which was a group of LGPS from the Midlands.
- iii. Intangible assets were similar to capital items and related to software and investment in the website, which were included on the balance sheet. As the benefit of expenditure was realised over a number of years, the costs were also attributed to the Balance Sheet over the same time period. Some digital costs were handled differently. For example, as development of the website was a large investment and presented a step change in the operation of the business radically improved the experience for customers, the costs for such were included as an asset on the Balance Sheet. However, for smaller investments, such as implementation of the Digital Strategy, elements of the cost were charged on a day-to-day basis to the Profit and Loss sheet.

It was moved by Cllr Coles and seconded by Cllr Rawlins that

- a) the Annual Governance Statement be approved; and

- b) the Management Committee be recommended to approve the 2022/23 financial statements and the proposed dividend pool of £4,369,269 to be paid in December 2023.

RESOLVED:

That the

- a) the Annual Governance Statement be approved; and
 b) the Management Committee be recommended to approve the 2022/23 financial statements and the proposed dividend pool of £4,369,269 to be paid in December 2023.

145. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 14 February 2024 at 10.30am.

146. Exclusion of the Press and Public.

RESOLVED:

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the remaining item of business on the grounds that it will involve the likely disclosure of exempt information during the consideration of the following items of business as defined in paragraphs 3 and 10 of Schedule 12A of the Act, and, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

147. Financial Performance Update - Five Months to August 2023.

The Committee considered an exempt report of the Director and Consortium Treasurer which provided an update on the financial performance in 2022/23, covering the five months to the end of August 2023. 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).

It was moved by Cllr Coles and seconded by Cllr Rawlins that the update provided on the financial performance of ESPO in 2022/23, covering the 5 months to the end of August 2023 be noted.

RESOLVED:

That the update provided on the financial performance of ESPO in 2022/23, covering the 5 months to the end of August 2023 be noted.

148. Risk Review.

The Committee considered an exempt report of the Director and Consortium Treasurer which provided an overview of ESPO's risk landscape. 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).

It was moved by Cllr Coles and seconded by Mrs Wright that the overview of ESPO's risk landscape be noted.

RESOLVED:

That the overview of ESPO's risk landscape be noted.

10.30 am - 12.16 pm
11 October 2023

CHAIRMAN