



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: 3 October 2023
My Ref: AP/ESPO
Please ask for: Anna Poole
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To: Members of the ESPO Finance and Audit Subcommittee

Dear Member,

ESPO FINANCE AND AUDIT SUBCOMMITTEE

A meeting of the Finance and Audit Subcommittee will be held at on Wednesday, 11 October 2023 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,

Anna Poole
for Consortium Secretary

AGENDA

<u>Item</u>		<u>Pages</u>
1.	Election of Chairman.	
2.	Minutes of the meeting held on 15 February 2023.	(Pages 3 - 6)
3.	Declarations of interest in respect of items on the agenda.	

Democratic Services ◦ Chief Executive's Department ◦ Leicestershire County Council ◦ County Hall
Glenfield ◦ Leicestershire ◦ LE3 8RA ◦ Tel: 0116 232 3232 ◦ Email: democracy@leics.gov.uk



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4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.
5. External Audit of the 2022/23 Financial Statements. (Pages 7 - 22)
6. Internal Audit Service - Annual Report 2022/23. (Pages 23 - 56)
7. Internal Audit Service - Progress against the 2023/24 Internal Audit Plan. (Pages 57 - 66)
8. 2022/23 Financial Statements and Annual Governance Statement. (Pages 67 - 114)
9. Date of next meeting.
10. Any other items which the Chairman has decided to take as urgent.
11. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the remaining items in accordance with Section 100(A)(4) of the Local Government Act 1972 (Exempt Information).
12. Financial Performance Update - Five Months to August 2023. (Pages 115 - 126)
13. Risk Review. (Pages 127 - 144)



Minutes of a meeting of the ESPO Finance and Audit Subcommittee held at County Hall, Glenfield on Wednesday, 15 February 2023.

PRESENT

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

Apologies

Cllr. Andrew Jamieson – Norfolk County Council
 Cllr Bryony Goodliffe – Cambridgeshire County Council

In attendance

ESPO

Mr. K. Smith - Director
 Mr. D. Goodacre – Commercial Financial Controller
 Mr. G. Tapp – Head of Strategic Finance

Leicestershire County Council

Mr. N. Wash – On behalf of Consortium Treasurer
 Mr. N. Jones – Head of Internal Audit and Assurance Service
 Mr. M. Davis – Audit Manager
 Mr. M. Seedat – Head of Democratic Services

127. Minutes of the previous meeting.

The minutes of the meeting held on 11th May 2022 were taken as read, confirmed and signed.

128. 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.

129. Urgent items.

There were no urgent items for consideration.

130. Revised ESPO Finance and Audit Subcommittee Terms of Reference and Risk Management Policy

The Subcommittee considered a report of the Director of ESPO and Consortium Treasurer concerning proposed changes to the Subcommittee's terms of reference and

consequent changes to the Risk Management Policy. A copy of the report, marked Agenda Item 5, is filed with these minutes.

RESOLVED

That the Management Committee be advised that this Subcommittee supports: -

- a) the proposed changes to the Terms of Reference subject to inclusion of details on the Quorum and ability of members to nominate substitutes.
- b) the consequential changes to the Risk Management Policy.

131. Progress against the 2022-23 Internal Audit Plan

The Subcommittee received a report of the Consortium Treasurer outlining the progress made against the Internal Audit Plan for 2022-23. A copy of the report, marked 'Agenda Item 6', is filed with these minutes.

The Subcommittee was advised that of the high importance recommendations the issues around credit control had been addressed and 2 of 3 relating to Cyber Security had been completed.

RESOLVED:

That the report and information now provided be noted.

132. Draft Internal Audit Plan 2023-24

The Subcommittee received a report of the Consortium Treasurer on the Annual Internal Audit Plan 2023-24. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

The Subcommittee was advised that the ESPO Leadership Team was responsible for the Risk Register and Internal Audit was responsible for ensuring its adequacy and identifying any additional risks.

With regard to hybrid ways of working the aim was for this to continue but the audit was aimed at ensuring that this was working effectively for ESPO and also that the welfare needs of staff were adequately dealt with.

Members were assured that the 150 days allocated for internal audit would be applied flexibly to respond to in year changes.

RESOLVED:

That the Annual Internal Audit Plan 2023-24 be recommended for approval by the Management Committee.

133. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Committee would be held on 11th October 2023 at 10.30am.

134. Exclusion of the Press and Public

That under Section 100A of the Local Government Act 1972, the public be excluded for the remaining item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act and that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

135. ESPO Financial Performance Update - 9 months to December 2022

The Subcommittee received an exempt report of the Director and Consortium Treasurer outlining the financial performance up to December 2022. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

The 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)

Comment was made regarding the potential impact of the pay request submitted for the coming year and how this would be managed should the settlement agreed be higher than that budgeted for.

Members also noted the challenging environment in which ESPO was now operating particularly in relation to inflation and supply side issues

RESOLVED:

That the position now reported be noted.

136. ESPO Budget 2023/24

The Subcommittee received an exempt report of the Director and Consortium Treasurer the draft budget for 2023/24. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

The 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)

Members welcomed the draft budget which still projected an increased surplus particularly given:

- increasing costs of goods and supplies;
- the challenges facing ESPO in terms of agency staff;
- the additional costs arising for the new procurement regime;
- a contracting market for school supplies.

RESOLVED:

That the draft budget report including the following key highlights be noted and submitted to the Management Committee: -

- a) The projected outturn of £5.9million for 2022/23.
- b) The projected surplus of £6.2million for 2023/24.

c) The projected financial reserve of £13.5million at the end of 2023/24.

10.30 - 11.45 am
15 February 2023

CHAIRMAN

FINANCE AND AUDIT SUB COMMITTEE – 11 OCTOBER 2023**EXTERNAL AUDIT OF THE 2022/23 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 2022/23 financial statements and the Subcommittee is asked to note the report.

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. Following a successful tender exercise at the start of 2022 which was overseen by the Chief Officers Group, Fortus Audit LLP was appointed as auditors from 2021/22. In July 2023, the Midlands offices of Fortus Audit LLP merged with TC Group Limited, and TC Group Limited took over as auditor. We retained the same audit Director and audit team. We are in the process of novating the contract to TC Group as per our original contract and in compliance with procurement regulations.
5. TC Group have concluded their audit and, in exercising good governance, are given the opportunity to report their findings directly to members. Following the decision by the Management Committee in March 2023 to revise the Finance and Audit Subcommittee's Terms of Reference, the remit to review and approve the external audit findings now is the responsibility of the Subcommittee.
6. A copy of the auditor's report is attached at the Appendix to this report and the audit director from TC Group will attend the Subcommittee meeting to provide an overview and receive any questions.

7. TC Group expect to issue an 'unqualified' audit opinion for 2022/23, which is the desired outcome of the audit. No material weaknesses in internal control have been identified and no significant governance or compliance concerns have been raised.
8. The 2022/23 financial statements are presented to the Subcommittee elsewhere on the agenda for this meeting.

Recommendation

9. The Committee is asked to note the external audit of the financial statements 2022/23.

Equal Opportunities Implications

10. None.

Officer to Contact

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Appendix

ESPO – Audit Findings Report (year ended 31 March 2023)

Eastern Shires Purchasing Organisation

AUDIT FINDINGS REPORT

YEAR ENDED 31 MARCH 2023



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PRIVATE & CONFIDENTIAL

ESPO Management Committee
Grove Park
Barnsdale Way
Leicester
LE19 1ES

26 September 2023

Dear Committee

REPORT TO MANAGEMENT

During the course of our audit for the year ended 31 March 2023 certain matters arose that we are required to communicate to you. Within this report we document these points but also outline certain recommendations which we feel may be of value to you.

These matters came to light during the course of our normal audit tests which are designed to assist us in forming our opinion on the financial statements. Our tests may not necessarily disclose all errors or irregularities and should not be relied upon to do so. However, if any irregularity did come to our attention during our audit tests, we would, of course, inform you immediately.

We have complied with the Financial Reporting Council's (FRC) Ethical Standard and no additional facts or matters have arisen during the course of the audit that we wish to draw to your attention and we confirm that we are independent and able to express an objective opinion on the financial statements.

This report has been prepared for the sole use of the Management Committee of ESPO and must not be shown to third parties without our prior consent. No responsibilities are accepted by TC Group towards any party acting or refraining from action as a result of this report.

Finally, we would like to express our thanks to all members of the ESPO's staff who assisted us in carrying out our work and please do get in contact should you wish to discuss further any matters contained within the report.

Yours faithfully

TC-Group

AUDIT OVERVIEW

AUDIT APPROACH	AUDIT STATUS	ANTICIPATED AUDIT OPINION
<p>The audit was performed in accordance with the International Standards on Auditing (UK) (ISA's). Our general audit approach was determined by our assessment of risk, both in terms of the potential misstatement in the financial statements and of the control environment in which the group operates.</p> <p>During the audit we updated our understanding of the business and it's operating environment, we reviewed the design and implementation of key internal controls and performed substantive audit procedures that focused proportionately towards identified risk areas.</p>	<p>Prior to issuing our audit report we require:</p> <ul style="list-style-type: none">• A letter of representation signed by management.• Confirmation from management of post balance sheet events.• Signed financial statements.	<p>We confirm we have maintained compliance with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements.</p> <p>We anticipate that we will issue an unmodified audit report, subject to the satisfactory clearance of any outstanding matters outlined in this report.</p>

ETHICAL CONSIDERATIONS

The Financial Reporting Council's (FRC) Ethical Standard and ISA UK 260 require us to give you full and fair disclosure of matters relating to our integrity, objectivity and independence. In this context:

- We confirm that there are no significant facts or matters that impact on our integrity, objectivity and independence as auditors that we are required or wish to draw to your attention.
- We have complied with the FRC Ethical Standard and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the FRC Ethical Standard.

As part of the audit process, we have considered whether non-audit services might be seen as a threat to our integrity, objectivity and independence as ESPO's auditors. We have ensured appropriate safeguards are put in place as evidenced opposite.

SERVICE	THREAT	SAFEGUARD
No 'non-audit' services provided		

SIGNIFICANT RISKS - FINDINGS

AREA	AUDIT WORK DONE	AUDIT FINDINGS
<p>Revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated as a result of improper revenue recognition.</p>	<ul style="list-style-type: none"> • Review of revenue recognition policies of all revenue streams to ensure compliance with FRS 102. • Substantive testing of material revenue streams both during the year and around year end to ensure revenue existed, was complete and recorded in the correct financial year. 	<p>No significant issues noted.</p>
<p>Management override of controls Under ISA 240 there is a presumed risk in relation to the overriding of controls by management. Certain balances with the financial statements require significant management judgement and estimation, and as such presented heightened audit risk.</p>	<ul style="list-style-type: none"> • Review of processes adopted by management in arriving at significant accounting estimates and judgements. • Review of journal postings during the year and around year end. • Review of any unusual and unexpected transactions identified throughout the audit file. 	<p>No significant issues noted</p>
<p>Stock valuation Given stock is a material balance and significant movement has been noted when compared to prior year we have selected as a significant risk.</p>	<ul style="list-style-type: none"> • Review stock cost back to purchase invoices • Review of stock net realisable value to sales invoice 	<p>No significant issues noted</p>

SIGNIFICANT RISKS - FINDINGS

AREA	AUDIT WORK DONE	AUDIT FINDINGS
<p>Recoverability of debtors There is a risk that debtors may be materially overstated in the financial statements.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> • analytical review to assess movements and trends. • review of after date cash received. • review of aged debtors. 	<p>No significant issues noted.</p>
<p>Property valuation Due to the material balance subjectivity required in relation to valuation of property we have selected as a significant risk area.</p>	<p>We performed the following:</p> <ul style="list-style-type: none"> • Review and test assumptions applied by third party property valuer for appropriateness. • Assess qualifications, knowledge and competence of the valuer. • Corroborate amounts recorded to third party report. 	<p>No significant issues noted</p>

OTHER KEY AUDIT ISSUES

AREA	AUDIT WORK DONE	AUDIT FINDINGS
<p>Post balance sheet events We have a responsibility to consider the impact of events after the reporting date on the financial statements, to the date the audit report is signed.</p>	<p>We performed post year end reviews of the following:</p> <ul style="list-style-type: none"> • Management accounts • Board minutes • News reports • Ledgers / statements • Statutory filings 	<p>No material events identified.</p>
<p>Going concern We are required to report on the appropriateness of management’s assessment of going concern.</p>	<p>We reviewed managements assessment of whether the company is a going concern. We corroborated the assessment through reviewing the following:</p> <ul style="list-style-type: none"> • The results of the year • Post year end management accounts • Current financial position 	<p>We consider managements assessment of going concern to be appropriate.</p>
<p>Related Parties We are required to consider the risk of material misstatement associated with related party relationships and transactions.</p>	<p>The group structure and related party forms were obtained from management and corroborated to supporting records. Completeness of these disclosures was considered through reviewing ledgers and statutory records.</p>	<p>We have reviewed the disclosures in the financial statements to ensure disclosures are accurate, complete and compliant with FRS 102, no issues were identified in relation to this.</p>

INTERNAL CONTROLS

To enable us to express an opinion on the financial statements our audit included consideration of internal controls relevant to the preparation of the financial statements. Our consideration of these relevant internal controls is required to enable us to identify and assess risks from which we design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Our audit is, therefore, not designed to identify all control weaknesses and the matters reported below are limited to those deficiencies that we have identified during the audit and are required to report to you.

CONTROL POINT	SIGNIFICANCE	IMPLICATIONS	RECOMMENDATIONS
From procedures performed, it was noted that VAT is not regularly reconciled to turnover.	L	This gives rise to a risk that VAT returns submitted are inaccurate.	We recommend regularly reconciling VAT to turnover as a matter of risk management.

ADJUSTED MISSTATEMENTS

DETAILS	P&L ACCOUNT (£)		BALANCE SHEET (£)		P&L EFFECT (£)
	DR	CR	DR	CR	
No audit adjustments					

UNADJUSTED MISSTATEMENTS

DETAILS	P&L ACCOUNT (£)		BALANCE SHEET (£)		P&L EFFECT (£)
	DR	CR	DR	CR	
No unadjusted misstatements.					
Some immaterial balance sheet reclassifications were posted following the audit but had no impact on reported profit or net assets.					



OUR SERVICE LINES & SECTORS

As business advisers and accountants, we're able to provide our clients with a suite of services to meet the demands and growth needs of their business.

By offering these services under a single brand, we're able to ensure the advice and support we provide to our clients is both comprehensive and joined up.

We also provide specialist expertise to a number of specific industry sectors.

CONTACT INFORMATION

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ESPO FINANCE AND AUDIT SUBCOMMITTEE – 11 OCTOBER 2023

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2022-23

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. To provide the Finance and Audit Subcommittee (the Subcommittee) with an annual report on internal audit work conducted during 2022-23. The Annual Report is appended to this report.

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 and Audit 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 PSIAS require the HoIAS' annual report to include:
- i. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's control environment (see Annex 1);
 - ii. a summary of the audit work from which the opinion is derived (see Annex 2);
 - iii. a comparison of the work actually undertaken with the work that was planned, including a summary of the performance of the internal audit function (see the Appendix);
 - iv. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) (see Annexes 3 and 4); and
 - v. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement (see the Appendix).

Internal Audit Service Annual Report 2022-23

7. The annual report for 2022-23 is attached at the Appendix.
8. Headlines from the report are: -
- i. Overall, positive opinions were given in all three components of the 'control environment' i.e. the framework of governance, risk management and control (attached at Annex 1)
 - ii. An overall substantial assurance rating is given that the control environment remains adequate and effective.
 - iii. The majority of planned work was achieved.

Resources Implications

9. The budget for the provision of the internal audit service is contained within ESPO's Medium Term Financial Strategy under charges by the Servicing Authority.
10. 150 days were provided and the total charge to ESPO was £55,491.

Recommendations

11. That the Finance and Audit Subcommittee approves the Internal Audit Service Annual Report for 2022-23.

Equal Opportunities Implications

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

Background Papers

Accounts and Audit Regulations (Amendment) 2015

<https://www.legislation.gov.uk/ukxi/2015/234/contents/made>

The Public Sector Internal Audit Standards (revised from April 2017)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/641252/PSAIS_1_April_2017.pdf

Annual Internal Audit Plan 2022-23

<https://politics.leics.gov.uk/documents/s167142/Appendix%20-%20ESPO%202022-23%20IA%20Plan%20Final.pdf>

Constitution of the ESPO Management Committee

Officer to Contact

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Appendices

Appendix - Internal Audit Service Annual Report 2022-23

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 2022 and 31 March 2023 from which the overall opinion is derived

Annex 3 - Summary - Self-assessment of conformance with PSIAS - May 2023

Annex 4 - LCCIAS QAIP with action plan - May 2023

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ESPO

Leicestershire County Council Internal Audit Service Annual Audit Report 2022-23

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

25 September 2023

ESPO
LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE
ANNUAL REPORT 2022-23

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).
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

- 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: -

No 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. Those 2021-22 audits that were at draft report stage were closed with no changes to opinions
- 10. There were no new high importance (HI) recommendations and the HI in the Cyber Security Audit Report from 2021-22 was closed.
- 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.
- 12. Six audits returning 'no opinion' were 'consulting' (advisory) type audits (see definitions).

13. One audit was deferred into 2023-24 and one was merged into another wider audit of IT controls.
14. Other than the External Auditor, there was no reliance placed 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

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

Table 1: Overall performance against 2022-23 internal audit plan

	<u>Audits</u>	<u>Complete</u>	<u>Incomplete</u>	<u>Deferred/ Other</u>
Planned	17	15	-	2
Unplanned	-	-	-	-
Client management	1	1	-	-
Total	18	16	-	2

16. 150 days were provided as planned.

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

17. Leicestershire County Council Internal Audit Service is due its 5 yearly external quality assessment. In preparation for this the HoIAS undertook only a light touch self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Notes supporting the self-assessment, and changes (in bold font), are reported in **Annex 3**.
18. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP). Some action dates have had to be extended and are reported (in bold font) at the end of **Annex 4**
19. There were no significant deviations from the PSIAS.

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

20. None, but a 'governance group' comprising the Director of ESPO, Commercial Financial Controller (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
 25 September 2023

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of ESPO's control environment
2022-23**

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

25 September 2023

Background

During the financial year 2022-23, 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 2022-23) 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 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

A governance themed audit of frameworks returned substantial assurance. The follow up audit of cyber security arrangements allowed for a HI recommendation raised in the previous year to be closed off.

Advice was provided on the compilation of the Annual Governance Statement for 2021-22. Good governance principles were found to have been applied in the compilation. The HoIAS is part of a group comprising the ESPO Director, the Commercial Financial Controller, 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 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.

Two separate audits of Key Business Customer Controls and Business Continuity/Disaster Recovery returned substantial assurance. Advice continues to be given in respect of the warehouse project, with the Audit Manager being a critical friend of the project board.

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 Committee meetings.

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 three counter fraud based audits all returned substantial assurance. work provided by the Servicing Authority (H&S).

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 the refresh of the Servicing Authority SLAs

The annual rebates income audit was planned but could not be completed. Site visits are planned for 2023/24.

No 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 of Internal Audit Service work between 1 April 2022 and 31 March 2023 from which the overall opinion is derived

<u>Ref</u>	<u>Type</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position/Assurance</u>
22/23 - A	Various	Continuation of work commenced in 2021-22	To complete any outstanding audits that overlap the financial year	Completed
22/23 - B	Governance	Annual Governance Requirements 2021-22	Revised governance reporting arrangements are suitable	Completed - Control advice issued
22/23 - C	Governance	Counter Fraud - Cyber Security - follow up report	Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment.	Completed consultancy work for 22/23
22/23 - D	Governance	Frameworks	Developing any new/developed mirrored offerings/Time taken	Substantial
22/23 - E	Governance	Procurement	Policies and procedures in place have due regard for legislative requirements and timeliness and appropriateness of decision making	Deferred into 2023/24 due to the Procurement Bill only currently going through Parliament.
22/23 - F	Risk Management	Warehouse	Robust governance and management of risk in the delivery in respect of the additional warehouse capacity at Grove Park	On-going control advice
22/23 - G	Risk Management	Counter Fraud - NFI specific	Data extraction and review output reports	Completed – minor findings
22/23 – H	Risk Management	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 22/23	Contained within 22/23 - M

22/23 - I	Risk Management	Key Business Customer Controls	Assessment of Risk Mitigation Procedures in place e.g. credit limits, credit rating assessments, parent guarantees, monitoring and market intelligence	Substantial
22/23 - J	Risk Management	Emerging Risks	ESPO identification and preparedness for any emerging risks e.g. Legislative changes, continued adjustments as a result of existing the EU/COVID-19 requirements, material changes to the 5-Year business strategy	Complete – Various ad-hoc areas where control advice has been issued
22/23 – K	Risk Management	Business Continuity/Disaster Recovery	Risk of business inoperability is minimised and access and IT infrastructure is restored in a timely manner should a disaster occur	Substantial
22/23 – L	Internal control	General Financial Systems	Typical coverage includes reconciliations; receivables; payables; payroll and stock	Substantial
22/23 - M	Internal control	IT General Controls	The range of controls expected by the External Auditor are well designed and consistently applied.	Substantial
22/23 – N	Internal control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	Completed advisory
22/23 - O	Internal control	Counter Fraud: Bank Mandate Fraud	Policies and procedures surrounding the amendment of bank accounts are robust	Substantial
22/23 - P	Internal control	Counter Fraud: Approval process for variations to pay	Variations to pay are appropriately authorised in accordance with procedures	Substantial
22/23 - Q	Internal control	Counter Fraud: Data Analytics - Accounts	Use of Data Analytics to provide assurance in respect of the accounts payables vendor	Substantial

		Payables Vendors	database	
22/2 - R	Internal control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Completed advisory
22/23 - S	Various	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers	Completed advisory

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Requirement	GC	PC	DNC	Notes supporting assessment at 28 June 2023 (bold font = new/updated)
Mission of internal audit	Y			
Definition of Internal Auditing	Y			Replacement lead on LCC CRR process started 10/2022
Core Principles	Y			QAIP records the need to better demonstrate quality and continuous improvement
Code of Ethics	Y			All staff completed self-assessment of conformance in June 2022
1000 Purpose, Authority and Responsibility	Y			Missed target to review/revise charters – complete by end of September 2023 – reflect new relationships
1100 Independence and Objectivity	Y			LCC risk management maturity review by insurer planned for autumn
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 2023 – 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			
1220 Due Professional Care	Y			
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	Y			

Programme				
1311 Internal Assessments	Y			
1312 External Assessments	Y			EQA was completed in March 2018 'generally conforms'. Plan in summer 23 for autumn 23
1320 Reporting on the Quality Assurance and Improvement Programme	Y			
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			Needs a strategy and DA strategy
2020 Communication and Approval	Y			
2030 Resource Management	Y			Fully staffed team very experienced
2040 Policies and Procedures	Y			DA strategy + remote working Audit manual needs updating to incorporate remote working procedures
2050 Coordination	Y			
2060 Reporting to Senior Management and the Board	Y			

2070 External Service Provider and Organisational Responsibility for Internal Auditing	Y			
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			
2210 Engagement Objectives	Y			
2220 Engagement Scope	Y			
2240 Engagement Work Programme	Y			
2300 Performing the Engagement	Y			
2310 Identifying Information	Y			
2320 Analysis and Evaluation	Y			Everyone in team now trained in basic DA. Senior Auditor is taking the lead and contributes to DA group for Midlands Counties and IIA
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			Speed reports being trialled

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			
2500 Monitoring Progress	Y			Started since 10/22 to 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 28 June 2023.

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LCCIAS - Quality Assurance Improvement Programme – June 2023 – Annex 4

Role	Responsibilities	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 and Data Analytics Strategy approved by Chief Financial Officer (CFO) ○ Internal Audit Charter(s) – revised in line with IASAB changes when required and reported to Committees ○ Standard Procedures (IA Manual) ○ Internal Audit Annual Service Plan ○ Counter Fraud Biennial Work Plan ○ Combined Assurance Model • 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 • 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 internal audit function namely: - 	<ul style="list-style-type: none"> • Roles and responsibilities are clearly identified in job descriptions/person specifications • Devise IA Strategy and issue along with DA strategy (action #1) • Audit Charters approved by respective senior management and committees responsible for the internal audit function. Need review/revision (#2) • Started on procedures but require an Audit Manual (#3) • Develop a LCC Assurance Map (#4) • Annual PSIAS internal self-assessment and QAIP improvement plan • Conduct self-assessment against CIPFA Statement (#5) • 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 –)

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LCCIAS - Quality Assurance Improvement Programme – June 2023 – Annex 4

Role	Responsibilities	Evidence (& actions required)
	<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 ● 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) ● induction programmes, training plans 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 	<ul style="list-style-type: none"> ● Performance framework sets out requirements for people strategy and performance monitoring (#6) ● Annual appraisal of performance of HoIAS by AD Finance, Strategic Property & Commissioning (informed by others) and throughout the team using the corporate ● Develop more regular formal assessments of IAS quality and value with key stakeholders (#7) ● Re-introduce formal training plans in APR process (#8) ● HoIAS review of contentious, sensitive draft reports and sign off ● Rotation of team supervision / people

LCCIAS - Quality Assurance Improvement Programme – June 2023 – Annex 4

Role	Responsibilities	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</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 • Re-introduce HoIAS periodic second review of engagement records (#9)

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LCCIAS - Quality Assurance Improvement Programme – June 2023 – Annex 4

Role	Responsibilities	Evidence (& actions required)
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 	<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

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Role	Responsibilities	Evidence (& actions required)
	<ul style="list-style-type: none"> ○ 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 adequately supported by relevant, reliable and sufficient evidence ○ 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) 	<ul style="list-style-type: none"> ● Oversee Business Support Service follow up of audit recs

Role	Responsibilities	Evidence (& actions required)
	<ul style="list-style-type: none"> ○ 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 <p>Monitor overall performance of team</p> <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 	<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

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Role	Responsibilities (& actions required)	Evidence (& actions required)
	<p>work and any limitations (what we are not going to review) – 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. 	

LCCIAS - Quality Assurance Improvement Programme – June 2023 – Annex 4

Role	Responsibilities (& actions required)	Evidence (& actions required)
	<ul style="list-style-type: none"> ○ Ensure that reports are accurate, objective, clear, concise and timely <p>Performance</p> <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 	

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Role	Responsibilities (& actions required)	Evidence (& actions required)
<p>External Suppliers</p> <p>Deliver agreed internal audit reviews</p>	<p>Developed and maintain Quality Assurance Improvement Programme</p> <p>Audit Process</p> <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 	<p>Confirmation that they conform to the PSIAS</p> <p>Complete:</p> <ul style="list-style-type: none"> ● planning document ● Audit check list ● Review check list ● Obtain feedback - Post Audit Questionnaire ● Post Audit Debrief

Actions (due date) following review and revision of QAIP in June 2023

1. Devise IA Strategy and issue along with DA strategy (**September 2023**)
2. Revise Charters to reflect remote working and PSIAS controls around counter fraud (**September 2023**)
3. Create an internal audit manual that adequately defines policy and procedures (**December 2023**)
4. Develop an assurance map (**ongoing**)
5. Conduct self-assessment against the CIPFA Statement on the role of the Head of Internal Audit in Local Government (**August 2023**)
6. Revise IAS performance framework in line with County corporate requirements (**ongoing**)
7. Develop more regular formal assessments of IAS quality and value with key stakeholders (**ongoing**)
8. Re-introduce formal training plans in APR process (**July 2023**)
9. Re-introduce HoIAS periodic second review of engagement records (**June 2023**)

Neil Jones, Head of Internal Audit & Assurance Service

28 June 2023

Declan Keegan, Director of Corporate Resources

28 June 2023



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 11 OCTOBER 2023

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2023-24

INTERNAL AUDIT PLAN

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

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

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. In accordance with ESPO's Financial Regulations Rule 15, specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference, the Finance and Audit Subcommittee (the Subcommittee) should receive and approve Internal Audit annual reports (annual plans, progress and annual reports, and the Internal Audit Charter), escalating high importance recommendations and significant governance concerns to Management Committee for review. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.
3. The audits undertaken are based on the Annual Internal Audit Plan (the Plan). Variations to the Plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.
4. The 2023-24 Plan was discussed at Finance and Audit Subcommittee on 15 February 2023 and subsequently approved by Management Committee on 22 March 2023. The scope of the audits and progress against them is shown in the Appendix.

Summary of Progress

Audit Opinion:

5. Where audits undertaken are an 'assurance' type i.e. the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e. the level of assurance that material risks are being managed. There are four levels of assurance: full; substantial; partial; and little.
6. On occasions, the audit might require a high importance (HI) recommendation, denoting that (based upon a combination of probability and impact) in our opinion a significant weakness either exists or potentially could arise and therefore the system's objectives are seriously compromised. A report that has a HI recommendation would not normally get an opinion above partial assurance. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.
7. The sum of individual engagement opinions assists the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy of ESPO's control environment, comprised of its governance, risk management and internal control framework
8. Consulting/advisory audits do not result in an opinion but are taken into account in the HoIAS annual opinion.

High Importance Recommendations

9. Within the 2021/22 Cyber Security audit (and resultant 2022/23 follow up), there remained one high importance recommendation to be implemented (in respect of de-commissioning legacy systems). The one outstanding issue related to an insecure process used specifically for ordering within the legacy system. Evidence has been obtained that this element has been replaced with another more secure product that does not have these vulnerabilities. Subject to approval from this committee, our subsequent retesting has confirmed that this recommendation has now been adequately addressed.
10. It is also pleasing to note that to date our 2023/24 coverage has not resulted in any other high importance recommendations and/or partial opinion reports.

2023-24 Progress to date

11. A summary of progress is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed to at least draft report stage or on-going consultancy work	5	1 x Prior Year allocation to finalise 22/23 audits <i>(Covering 7 audits) – All substantial assurance</i>	23/24 – A <i>(Covering prior year audits: 22/23-D, I, K, L, M, O & Q)</i>
		1 x Final Report – Substantial Assurance	23/24 - P
		1 x Follow Up report i.e. no opinion required	23/24 - C
		2 x Advisory	23/24–G & Q
Work in progress	13	N/A	23/24 - B, D, E, F, H, I, J, K, L, M, N, O, R

12. It should be noted that of the thirteen audits that are currently classified as work in progress, two are required to be undertaken in the final quarter due to sample size requirements, two cannot be progressed further yet due to business and legislative requirements respectively, and a further five will be on-going work throughout the financial year.
13. The Appendix summarises progress against the 2023-24 plan. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress.
14. The HoIAS reviewed and commented upon the draft Annual Governance Statement

Recommendation

15. That the Committee notes

- 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.

Equal Opportunities Implications

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

Background Paper

Report to ESPO Management Committee 22 March 2023 – Annual Internal Audit Plan 2023-24

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=704&MId=7196&Ver=4>

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Appendix

Appendix - Summary progress against 2023-24 audits as at 22 September 2023

Summary progress against 2023-24 audits as at 22 September 2023

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

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 22 September 2023</u>
23/24 - A	Various	Continuation of work commenced in 2022-23	To complete any outstanding audits that overlap the financial year	
			Frameworks (22/23-D)	Final Report – Substantial Assurance
			Key Business Customer Controls (22/23-I)	Final Report – Substantial Assurance
			Business Continuity/Disaster Recovery (22/23–K)	Final Report – Substantial Assurance
			General Financial Systems (*3) (22-23-L)	Final Report – Substantial Assurance
			IT general controls (*3) (22-23-M)	Final Report - Substantial Assurance
			Counter Fraud: Bank Mandate Fraud (22/23-O)	Final Report – Substantial Assurance
			Counter Fraud: Data Analytics - Accounts Payables Vendors (22/23-Q)	Final Report – Substantial Assurance
			<i>All other advisory work also either complete or on going i.e. purposely straddles two financial years</i>	

23/24 - C	Governance	Counter Fraud - Cyber Security - follow up report	Adequate Cyber Security arrangements are in place in accordance with nationally issued good practice guidance and associated self-assessment (note this also addresses a key potential risk highlighted in the ESPO Fraud risk assessment work undertaken in 20/21). Work will focus on ensuring the recommendations in the 21/22 report and subsequent 22/23 initial follow up report have been addressed	Final Report Issued – Of the original 49 recommendations that were raised in the 21/22 report there were 26 remaining in 22/23. Of these 26: 8 have been fully implemented 15 are classed as ‘work in progress’ 3 more low risk recommendations not yet started. High importance residual recommendation addressed.
23/24 - G	Risk management	Counter Fraud - NFI specific	Focus on the assessment of output reports commenced in Feb 2023 with the overall objective of results being correctly interpreted and investigated and have due regard for a segregation of duties (data having previously been extracted on 30 September 2022 and uploaded in October 2022)	No instances of fraudulent activity were noted from the work undertaken and investigations made although there were 3 previously undetected cases of duplicate payments totalling £2.3K. Whilst non-material in both value and volume, associated risk mitigation controls were recommended.
23/24 - P	Internal Control	Use of Data Analytics to provide assurance in respect of key fraud risks and/or financial/operational risks	To provide assurances to management on the validity of VAT numbers held within the Supplier Records on System 21 (ESPO Supplier System)	Final Report Issued – Substantial Assurance

23/24 - Q	Internal Control	Servicing Authority	Key Performance Indicators for services provided by the Servicing Authority are adhered to	Final Report Issued - advisory
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Audits in progress

<u>Ref</u>	<u>Type²</u>	<u>Audit title</u>	<u>Assurance objective</u>	<u>Position @ 22 September 2023</u>
23/24 - B	Governance	Annual Governance Requirements 2022-23	Revised governance reporting arrangements are suitable	Advisory work nearing completion
23/24 - D	Governance	Hybrid Working Arrangements	Hybrid ways of working are fully embedded to ensure that performance levels and requirements are maintained, staff wellbeing support is adequate, satisfactory health and safety and data security arrangements are in place and the right tools are readily available both in the office and whilst working offsite.	Testing currently being undertaken
23/24 - E	Governance	Counter Fraud - Procurement Fraud	Policies and procedures in operation have due regard for the industry standard risk mitigations in relation to procurement fraud.	Testing currently being undertaken
23/24 - F	Risk Management	Warehouse	Robust Governance and Management of Risk in the delivery in respect of the additional warehouse capacity at Grove Park	On-going control advice through Critical Friend Project Board Membership
23/24 - H	Risk Management	IT Developments	Work to be conducted in accordance with ESPO IT Key Deliverables 23/24	On-going work throughout 23/24, specific examples include: Payment of invoices online via the ESPO website.
23/24 - I	Risk Management	Warehouse Expansion - Risk Mitigation	Assessment of Temporary Health & Safety, Business Continuity & Security Risk Mitigation	On-going control advice at an operational level.

		Temporary Revised Ways of Working	Procedures in place	
23/24 - J	Risk Management	Emerging risks	ESPO identification and preparedness for any emerging risks e.g. Legislative changes, continued adjustments as a result of legislative requirements, material changes to the 5-Year business strategy and other 'in year' matters requiring urgent attention	On-going work throughout 23/24, specific examples include: Periodically reviewing risk registers for significant changes and on-going sharing of good practice/control mitigation/leadership direction
23/24 - K	Risk Management	Supply Chain Controls	Early identification and mitigation of supply chain risks to ensure continuity of service	Testing currently being undertaken
23/24 - L	Internal Control	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	Terms of Engagement Drafted <i>Note: actual testing can only commence in final quarter due to sample periods required.</i>
23/24 - M	Internal Control	IT general controls (*)	The range of Information Technology General Controls (ITGC) expected by the External Auditor are well designed and consistently applied.	Terms of Engagement Drafted <i>Note: actual testing can only commence in final quarter due to sample periods required.</i>
23/24 - N	Internal Control	Rebates income	Annual audit to evaluate whether rebates received conform to estimates of supplier business generated - focus will be on site visits	Approach and coverage at selected site visits currently being finalised.
23/24 - O	Governance	Procurement	Policies and procedures in place have due regard for legislative requirements and timeliness and appropriateness of decision making (Key focus being Transforming Public	On-going dialogue in respect of timing, approach and other assurances in order to maximise benefits of the work.

			Procurement requirements)	
23/24 - R	Various	Contingency	Unforeseen events brought to the attention of the Head of Internal Audit Service by either ESPO Leadership Team or the Consortium Officers - examples may include loss of customers/business, MTFS targets not being met, Failure to retain staff, staff sickness, energy related risks, major health & safety/legislative issue, warehouse issues, supply chain issues, adverse reputational issue, climate change, risks associated with ways of working	On-going throughout 23/24, specific examples include: Advisory work issued in respect of the local government transparency code

Audits not started

None

Deferred/cancelled audits

None to date

¹unique reference numbers based on the financial year in question (i.e. '23-A' relates to the first entry on the approved 2023/24 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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FINANCE AND AUDIT SUBCOMMITTEE – 11 OCTOBER 2023**2022/23 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT****JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER****Purpose of Report**

1. This report sets out the 2022/23 financial statements (also referred to as the Statement of Accounts within a Local Government setting) and the 2022/23 Annual Governance Statement (AGS).
2. The Subcommittee is asked to approve the Annual Governance Statement and to recommend to Management Committee the approval of the 2022/23 financial statements and the proposed dividend pool of £4,369,269.

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 and a 'glossy' version for publication is currently being prepared.
4. The external audit and the audit opinion is considered elsewhere on the agenda for this meeting.
5. Given the small size of both ESPO Trading Limited (ETL) and Eduzone, they don't require an external audit. Their accounts are in the process of being prepared to coincide with the 31 December 2023 submission deadline and will be overseen by the ETL Board of Directors.

Key Points

6. For 2022/23 the trading surplus previously reported to Management Committee (our 'Management Accounts') was a surplus of £5.9m. This was £0.3m higher than budget and £0.4m higher than 2021/22. As discussed in previous Management Committee meetings, this was a great result for ESPO.
7. The Financial Statements show a net profit for 2022/23 of £3.7m (2021/22 = £3.5m). This is different to the Management Accounts due to additional pension costs (which are only accounted for fully in the Financial Statements) and a number of other statutory adjustments.

8. A dividend of £4.4m is proposed. 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 £20.8m at 31 March 2023. This allows for the dividend mentioned in paragraph 9 to be paid, supports the build-up of reserves for the planned investment in the warehouse, and supports the working capital needs of the business – both longer term and also for each seasonal summer peak.

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 and are:
 - i. Value of pension: The closing position as at 31 March 2023 was an asset of £3k (prior year a deficit of £20.2m). This is shown as 'Post Employment Benefits' on the balance sheet on page 12 of the financial statements. Further details are provided in note 18 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 the latest triennial valuation and changes in financial assumptions linked to improving interest rates. All assumptions applied are consistent with Leicestershire County Council and the pension scheme is now 100% funded. Additional contributions will continue as per the central scheme's strategy to get to a 120% funding level.
 - ii. Value of land and buildings: The Grove Park premises were valued at £18.2m (prior year £18.0m) in accordance with professional guidelines by chartered surveyors. The outstanding loan used to purchase the site now stands at £3.75m.
 - iii. 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 latest financial performance, considered elsewhere on the agenda, gives a current trading update, but trading in 2023/24 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.

23/24 Dividend

11. Each year ESPO pays a distribution back to members from the surplus it has generated. This provides a valuable contribution towards public services, in addition to the day to day value for money and compliance that EPSO affords its customers.
12. Management Committee agreed in 2015 a method for calculating the dividend, which considers ESPOs overall surplus and the member usage of ESPO. In addition, like previous years, ESPO also wishes to retain an additional £400k to

build its property maintenance reserve to ensure sufficient funding is retained for future maintenance and capital requirements.

13. Applying the above model yields a dividend pool for members of £4,369,269 and if approved we expect to make payment of individual member amounts in December 2023.

Annual Governance Statement

14. Similar to the external audit, and unlike local authority members, ESPO is not required to publish an Annual Governance Statement. 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 and Property (on behalf of the Consortium Treasurer)
- Head of Internal Audit and Assurance Service

ESPO

- Director of ESPO
- Commercial Financial Controller

16. The 2022/23 Annual Governance Statement is included in Appendix 2.

17. No areas of significant concern are identified in the AGS.

Governance and Assurance

18. In reviewing the decision to recommend that Management Committee approve the 2022/23 Financial Statements, the Subcommittee can gain assurance over the quality of the governance arrangements within ESPO from:

- i. The external auditors, through their audit opinion and audit findings report.
- ii. Internal audit, through previous updates to Management Committee and the Subcommittee and also inclusion in the AGS process.
- iii. ESPO Management, through previous updates to Management Committee and also inclusion in the AGS process.

Recommendation

19. The Subcommittee is asked to

- i. approve the Annual Governance Statement; and
- ii. recommend to Management Committee the approval of the 2022/23 financial statements and the proposed dividend pool of £4,369,269 to be paid in December 2023.

Equal Opportunities Implications

20. None.

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Appendices

Appendix 1 – 2022/23 ESPO Financial Statements

Appendix 2 – 2022/23 Annual Governance Statement

DRAFT

**Eastern Shires Purchasing Organisation
Annual report and financial statements
for the year ended 31 March 2023**

Eastern Shires Purchasing Organisation

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Eastern Shires Purchasing Organisation

Statement from the Chair

During 2022/23 we were delighted to see the schools we support return to a much more normal and happy environment for students after such a challenging period in recent years from the Covid-19 pandemic.

Despite some return to normal operations, inflation and the impact on the cost of living were national issues which affected our customers, our staff, and our own operations. We were very aware of the already stretched budgets in schools and the public sector, and the need for us to keep our prices low and so we were very careful to ensure we offered great value for money and limited any price increases wherever we could.

With a busy year and high trading volumes, once again I'm incredibly proud of our staff team for delivering our services this year, adapting to a more settled hybrid way of working at our Leicester base, and responding to the ever challenging and competitive trading environment. To all our colleagues I would like to say thank you!

ESPO's financial performance in 2022/23 was very good, with the organisation continuing to grow, and ESPO maintains a strong balance sheet with a healthy cash position. ESPO created a profit of £3.7m, but this is a profit with a purpose and during the year ESPO was able to return £4.1m back to its local authority members to be invested into local services and communities and this is something the entire Management Committee are especially proud of.

Looking ahead, we see inflation likely to remain an issue and we know that funding within schools remains stretched. I continue to be confident that our long standing approach of focusing on our customer offer, ensuring great everyday value for money and maintaining good stock availability will continue to steer ESPO through these volatile times.

Cllr M. Wright

Chair of ESPO Management Committee

Date: [date]

Eastern Shires Purchasing Organisation

Annual Report

Eastern Shires Purchasing Organisation ('ESPO') is a public sector owned professional buying organisation (PBO), specialising in providing a wide range of goods and services to the public sector for over 40 years. We offer a comprehensive, one-stop shop solution to UK schools and others, of over 25,000 products, 130 frameworks and bespoke procurement services, all with free support and advice available from our expert teams. This is serviced to customers through our website www.espo.org and our popular annual catalogue.

Mission

To work in partnership with our stakeholders to drive value-for-money for the public sector, through comprehensive procurement solutions.

Values

Our values guide everything we do here at ESPO, helping us to provide the best possible service to our customers and operate in a way that's in line with our public sector ethos.

- Working together
- Positivity
- Trust and Respect
- Customer focused
- Openness and transparency

Status and ownership

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' are 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 2023 is presented below.

Review of the business

2022/23 saw the return of a 'normal' academic year for schools after several years of disruption from Covid-19 and ESPO largely saw a return to pre-pandemic levels of demand as a result. We continued to see challenges in the global supply chain until late in 2022, linked to global issues such as the war in Ukraine and Covid restrictions only easing in China in autumn 2022. Maintaining good stock availability is always important to us and through the last year this was an area of significant focus of us to ensure we could meet the needs of our customers. Through the great work of our team we were able to offer good levels of stock availability, improving on the previous year.

2022/23 also saw the start of a rapid increase in inflation in the UK and ESPO was not immune to this. We were careful to manage pricing and limit the extent that inflationary increases were passed on to customers as much as we could, knowing how tight school budgets are and wanting to make sure that ESPO was able to offer great value for money everyday.

Supporting our staff in these difficult times were also able to offer the nationally agreed local government pay award of £1,925 per person.

Financially, it was a successful year for ESPO and a profit of £3.7m has been created (2021/22: £3.5m).

Overall revenue increased from £90.6m last year to £106.3m. Through our catalogue, we delivered or administered £75.9m of goods to customers, over £8m higher than last year, and reflecting both the winning of new business, and a necessary increase in selling prices to support the higher cost of goods.

Gas revenue increased from £12.9m to £19.1m, reflecting the significant increase in market gas prices from the war in Ukraine and sanctions applied to Russia. At ESPO we act as a procurement agent for our customers, charging a fixed daily fee and so didn't benefit from this market volatility. Our expert Energy team support customers by buying energy to help secure good prices for them, and to help them manage risk. This service remains hugely popular with customers benefitting from our approach to buying.

Eastern Shires Purchasing Organisation

Rebate income from our frameworks continued to grow and reached a record £10.5m, with ESPO continuing to offer a broad range of frameworks for our public sector customers to support their procurement and compliance needs.

Costs remained tightly controlled to ensure we can continue to best provide value to our customers and our member authorities.

Carbon Report

Greenhouse gas emissions, energy consumption and energy efficiency action

The Streamlined Energy and Carbon Reporting (SECR) figures will present a benchmark for future activity.

ESPO's greenhouse gas emissions and energy consumption are as follows:

	2023
Energy consumption used to calculate emissions (kWh)	3,669,289
Energy consumption break down (kWh)	
Gas	1,386,410
Electricity	779,195
Vehicle fuel	1,503,684
Scope 1 emissions (in tonnes of CO2 equivalent)	
Gas consumption	253
Vehicle fleet	523
Total scope 1	<u>776</u>
Scope 2 emissions (in tonnes of CO2 equivalent)	
Purchased electricity	<u>151</u>
Total gross emissions (in tonnes of CO2 equivalent)	<u><u>927</u></u>
 Intensity ratio – kg of CO2e per £1 of stores revenue	 0.02

Quantification and reporting methodology

We have followed the 2019 HM Government Environment Reporting Guidelines. We have also used the GHG Reporting Protocol – Corporate Standard and have used the 2022 UK Government Conversion Factors for the Company Reporting.

Intensity measurement

The chosen intensity measurement ratio is total gross emissions in kg of CO2e per £ of stores revenue, a recommended ratio for the sector.

Measures taken to improve energy efficiency

We have a policy of recording and reviewing energy use and investigating unexplained anomalies. Our energy is recorded using smart meters and consumption checked to ensure it follows expected patterns.

Across our fleet we are trialling the use of two electric delivery vehicles to understand how the technology might be applied in a cost efficient way to our business in the future.

Eastern Shires Purchasing Organisation

2023 reflects the first year of publishing SECR data and will be used to set a baseline for future reporting and measuring improvements against. 2023 benefits from not being significantly affected by the impact of Covid-19.

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.

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. It also maintains high levels of cash at any given time.

Political risk

ESPO's customers include a wide number of UK public sector organisations, with schools forming a significant grouping. Any significant changes in Government or Education policy which affect public sector or school spending levels could lead to a reduction in market size and/or a reduction in customer spending with ESPO. We maintain a close watch of policy, and a close relationship with our customers to understand and react to upcoming challenges. ESPO also maintains a diverse portfolio of products and services, and supports a broad range of customer so as to limit any possible impact.

Supply Chain

ESPO's ability to operate is contingent on being able to source products for customers at the right time and at the right price. This was complicated initially as a result of Brexit and the Covid-19 pandemic which caused disruption to global supply chains, and more recently by the war in Ukraine. These global events resulted in increased cost, time and administration in sourcing product. In managing this we maintain a broad supplier base, factored longer lead times into our planning cycle, and continually monitor product availability to respond to needs as they arise. We are also increasing capacity at our Leicester warehouse.

Price risk and inflation

ESPO is exposed to risk from changing product prices which increases in times of high inflation. Not being a manufacturer, our ability to manage our exposure to this risk comes from agreeing and negotiating contracts with suppliers and also benchmarking selling prices to ensure we remain competitive. Purchases are made significantly in GBP, with key suppliers known to operate hedging arrangements, which limits our exposure to fluctuating exchange rates.

People risk

ESPO depends on our highly skilled team and failing to recruit in a competitive marketplace could impact on our ability to serve our customers and deliver positive outcomes for our many stakeholders. We review our employee offer, monitor staff engagement, offer a range of learning and development opportunities, and actively support a health and safety, and wellbeing in the business.

Cyber risk

ESPO views cyber related risks as one of the greatest general threats facing any organisation and we have a variety of measures in place to pro-actively prevent and detect issues. We are continually improving the awareness and resilience within the organisation to these threats.

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 four

Eastern Shires Purchasing Organisation

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 at least every six months to reflect any changes that may materially impact the year end position.

At year end ESPO has net current assets of £20.8m, a strong cash position and continues to trade well with high levels of customer demand. ESPO continues to monitor and respond to circumstances as they arise 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.

Management Committee Responsibilities Statement

The Management Committee are responsible for ensuring the proper administration of ESPO's 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 Corporate Resources of Leicestershire County Council who is the 'Consortium Treasurer';

These accounts were approved at a meeting of the Management Committee on [date].

Cllr. M. Wright

Chair, ESPO Management Committee

D Keegan

Director of Corporate Resources of Leicestershire County Council (Consortium Treasurer of ESPO)

Eastern Shires Purchasing Organisation

Report of the Independent Auditors to the Joint Committee of Eastern Shires Purchasing Organisation

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 2023, 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, the financial statements give a true and fair view of the state of the Joint Committee's affairs as at 31 March 2023 and of its profit for the year then ended and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Basis for opinion

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 opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Joint Committee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Joint Committee's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Joint Committee with respect to going to concern are described in the relevant sections of this report.

Other information

The Joint Committee are responsible for the other information. The other information comprises the information included in the Strategic Report, but does not include the financial statements and our Report of the Auditors 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.

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 Joint Committee for the financial statements

As explained more fully in the Management Committees' responsibilities statement set out on page 7, the Joint Committee are responsible for preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Joint Committee 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 Joint Committee 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

Eastern Shires Purchasing Organisation

basis of accounting unless the Joint Committee 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 a Report of the Auditors 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Joint Committee and determined that the most significant frameworks which are directly relevant so specific assertions in the financial statements are those that relate to the reporting framework (UK GAAP) and the relevant tax compliance regulations in the UK.
- We understood how the Joint Committee is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through review of board minutes and discussions with those charged with governance.
- We assess the susceptibility of the Joint Committee's financial statements to material misstatement, including how fraud might occur, by discussion with management from various parts of the business to understand where they considered there was a susceptibility to fraud. We considered the procedures and controls that the Joint Committee has established to prevent and detect fraud, and how these are monitored by management, and also any enhanced risk factors such as performance targets.
- Based on our understanding, we designed our audit procedures to identify any non-compliance with laws and regulations identified in the paragraphs above.
- We also performed audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias.

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, as a body, in accordance with our letter of engagement dated 4 April 2022. Our audit work has been undertaken so that we might state to the Joint Committee those matters we are required to state to them in a Report of the Auditors 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, as a body, for our audit work, for this report, or for the opinions we have formed.

TC Group
31 High View Close
Leicester
LE4 9LJ

Date:.....

Eastern Shires Purchasing Organisation

Income Statement

For the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Turnover	5	106,289	90,565
Cost of sales		(76,538)	(63,159)
		<hr/>	<hr/>
Gross profit		29,751	27,406
Distribution costs		(2,840)	(2,278)
Administrative expenses		(22,737)	(21,102)
		<hr/>	<hr/>
Operating profit	8	4,174	4,026
Exceptional Items	9	-	250
Interest receivable	10	247	19
Interest payable	11	(753)	(781)
		<hr/>	<hr/>
Profit for the financial year		<u>3,668</u>	<u>3,513</u>

Eastern Shires Purchasing Organisation

Statement of Comprehensive Income

For the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Profit for the financial year		3,668	3,513
Gains arising on revaluation of tangible fixed assets		402	2,449
Remeasurement of net defined benefit liability	18	22,196	9,094
Total comprehensive income		<u>26,266</u>	<u>15,056</u>

Eastern Shires Purchasing Organisation

Balance sheet

As at 31 March 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Intangible assets	12	362	604
Tangible assets	13	19,777	19,187
		<u>20,139</u>	<u>19,791</u>
Current assets			
Stocks	14	10,262	6,963
Debtors: amounts falling due within one year	15	9,745	9,537
Cash at bank and in hand		12,012	13,120
Creditors: Amounts falling due within one year	16	<u>(11,198)</u>	<u>(9,829)</u>
Net current assets		<u>20,821</u>	<u>19,791</u>
Total assets less current liabilities		40,960	39,582
Creditors: Amounts falling due after more than one year	17	(3,250)	(3,750)
Post Employment Benefits	18	3	(20,217)
Net assets		<u>37,713</u>	<u>15,615</u>
Capital and reserves			
General Reserve		31,684	30,012
Pension Reserve		3	(20,217)
Revaluation Reserve		6,026	5,820
Total Reserves		<u>37,713</u>	<u>15,615</u>

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

D Keegan

Director of Corporate Resources of Leicestershire County Council (Consortium Treasurer of ESPO)

Eastern Shires Purchasing Organisation

Statement of Cash Flows

For the year ended 31 March 2023

		2023 £'000	2022 £'000
	Note		
Net cash from operating activities	21	4,338	6,995
Cash flows from investing activities			
Purchase of fixed assets	13	(831)	(489)
Purchase of intangible assets	12	(48)	(79)
Interest received	10	248	19
Net cash from investing activities		(631)	(549)
Cash flows from financing activities			
Interest paid	11	(178)	(210)
Repayment of borrowings		(500)	(500)
Dividends paid		(4,137)	(3,334)
Net cash used in financing activities		(4,815)	(4,044)
Net increase/(decrease) in cash and cash equivalents		(1,108)	2,402
Cash and cash equivalents at the beginning of the year		13,120	10,718
Cash and cash equivalents at the end of the year		12,012	13,120

Eastern Shires Purchasing Organisation

Statement of Changes in Equity

For the year ended 31 March 2023

	P&L Reserve £'000	Pension Reserve £'000	Revaluation Reserve £'000	Total £'000
At 31 March 2021	27,344	(26,995)	3,544	3,893
Profit for the financial year	3,513	-	-	3,513
Remeasurement of net defined benefit liability	-	9,094	-	9,094
Surplus on revaluation of land and buildings	172	-	2,276	2,449
Total comprehensive income	31,030	(17,901)	5,820	18,949
Timing transfer of retirement benefit costs	2,316	(2,316)	-	-
Dividend paid	(3,334)	-	-	(3,334)
At 31 March 2022	30,012	(20,217)	5,820	15,615
Profit for the financial year	3,668	-	-	3,668
Remeasurement of net defined benefit liability	-	22,163	-	22,163
Surplus on revaluation of land and buildings	197	-	206	403
Total comprehensive income	33,877	1,946	6,026	41,849
Timing transfer of retirement benefit costs	1,943	(1,943)	-	-
Dividend paid	(4,137)	-	-	(4,137)
At 31 March 2023	31,684	3	6,026	37,713

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

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 note 4.

The functional currency of ESPO is considered to be pounds sterling because that is the currency of the primary economic environment in which 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 changes in trading performance, and shows that ESPO should be able to continue to operate for the foreseeable future.

In considering the above, management have a 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.

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 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.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

3. Summary of Accounting policies (continued)

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 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 2023

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.

3. Summary of Accounting policies (continued)

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 on a straight-line basis and charged to the Income Statement as follows:

IT Software – 3 to 5 years

An 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 – 3 to 25 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.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

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.

3. Summary of Accounting policies (continued)

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 asset's 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 ESPO's joint committee member authorities, i.e. dividends, are recognised in the Statement of Changes in Equity when they are paid.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

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.

The items in ESPO's Balance Sheet at 31 March 2023 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 office 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 carry out the valuation. The current property value used in the 2022/23 accounts is based on a certificate issued by the Council's Principal Valuer as at 31 March 2023.

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 2023 is £19.7m.

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 2023 is £nil (2022: £20.2m)

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 £0.9m. A one-year increase in member life expectancy compared with the assumption used would increase the liabilities by £1.7m. However, the assumptions interact in complex ways. During 2022/23, the organisation's actuaries advised that the net pension liability had decreased by £20.2m 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

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

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 2023 ESPO had a balance of sales ledger debtors of £7.8m. A review of overdue debts has identified that impairment for doubtful debts of £0.2m 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.

Stock

Stocks of catalogue products are held in anticipation of sales to customers and at 31 March 2023 gross stock of £10.9m 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 2023 the provision for the possible impairment of stock amounted to £0.6m.

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 2023

5. Turnover and revenue

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

	2023	2022
	£'000	£'000
Turnover:		
Stock Orders	53,453	47,615
Direct Orders	22,446	20,191
Gas	19,126	12,889
Rebate Income	10,484	9,068
Catalogue Advertising	780	802
	<u>106,289</u>	<u>90,565</u>

6. Senior Officers' remuneration and transactions

	2023	2022
	£'000	£'000
<i>Senior Officers' remuneration</i>		
Aggregate Emoluments	511	544
Pensions Contributions	91	123
	<u>642</u>	<u>667</u>
	Number	Number
The number of senior officers who:		
Are members of a defined benefit pension scheme	<u>5</u>	<u>5</u>

7. Staff numbers and costs

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

	2023	2022
	Number	Number
Operations	205	215
Purchasing	66	67
Administration	47	45
	<u>318</u>	<u>327</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

7. Staff numbers and costs (Continued)

Their aggregate remuneration comprised:

	2023	2022
	£'000	£'000
Wages and salaries	9,844	9,448
Social security costs	981	859
Defined benefit pension scheme costs (see note 18)	3,839	4,001
	<u>14,664</u>	<u>14,308</u>

8. Operating Profit

Operating profit is stated after charging/(crediting):

	2023	2022
	£'000	£'000
Staff costs (excluding Agency costs)	13,296	12,564
Audit fees payable to the organisation's auditors	32	29
(Profit)/loss on disposal of tangible fixed assets	(15)	(4)
Impairment of Inventory	(85)	56
	<u>13,228</u>	<u>12,645</u>

9. Exceptional items

	2023	2022
	£'000	£'000
Exceptional items	<u>-</u>	<u>250</u>

The exceptional item relates to a non-cash adjustment for the loan with Leicestershire County Council (for the purchase of the Grove Park premises in 2005) to correct the historical loan balance.

10. Interest Receivable

	2023	2022
	£'000	£'000
Bank interest	<u>248</u>	<u>19</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

11. Interest Payable

	2023 £'000	2022 £'000
Interest payable on long term loan	178	210
Pension interest cost and expected return on pension assets	575	571
Other interest payable	-	-
	<u>753</u>	<u>781</u>

12. Intangible assets

	IT Software £000
Cost	
At 1 April 2022	1,628
Additions	48
Disposals	-
Transfers	-
	<u>1,676</u>
At 31 March 2023	<u>1,676</u>
Amortisation	
At 1 April 2022	1,025
Charge for the year	289
Disposals	-
	<u>1,314</u>
At 31 March 2023	<u>1,314</u>
Net book value	
At 31 March 2022	<u>604</u>
At 31 March 2023	<u>362</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

13. Tangible fixed assets

	Land & Buildings £000	Assets Under Construction £000	Vehicles, Plant & Equipment £000	Total £000
Cost				
At 1 April 2022	18,000	-	4,590	22,590
Additions	54	344	433	831
Disposals	-	-	(641)	(641)
Revaluation	206	-	-	206
At 31 March 2023	18,260	344	4,448	22,986
Depreciation				
At 1 April 2022	-	-	3,403	3,403
Charge for the year	196	-	447	643
Disposals	-	-	(641)	(641)
Revaluation	(196)	-	-	(196)
At 31 March 2023	-	-	3,208	3,208
Net book value				
At 31 March 2022	18,000	-	1,187	19,187
At 31 March 2023	18,260	344	1,173	19,777

The historical cost of revalued land and buildings are £12,230,000 (2022: £12,176,000).

Assets Under Construction relates to third party costs for the construction of a warehouse extension at our Grove Park site.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

14. Stocks

	2023 £'000	2022 £'000
Goods for resale	10,262	6,963
	<u>10,262</u>	<u>6,963</u>
	<u><u>10,262</u></u>	<u><u>6,963</u></u>

15. Debtors

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade debtors	7,558	7,548
Prepayments and accrued income	1,394	1,243
Other debtors	43	107
Amounts due from related parties	750	639
	<u>9,745</u>	<u>9,537</u>
	<u><u>9,745</u></u>	<u><u>9,537</u></u>

16. Creditors – amounts falling due within one year

	2023 £'000	2022 £'000
Trade creditors	7,221	4,824
Other taxation and social security	228	271
Accruals and deferred income	2,277	2,753
VAT payable	695	1,118
Other creditors	277	363
Loans repayable within one year	500	500
	<u>11,198</u>	<u>9,829</u>
	<u><u>11,198</u></u>	<u><u>9,829</u></u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

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

	2023 £'000	2022 £'000
Long Term Loan	3,250	3,750
	<u>3,250</u>	<u>3,750</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%. Leicestershire County Council took out the loan with the Public Works and Loans Board on behalf of ESPO in 2005 and recharge all interest and repayment costs to ESPO. The loan will be fully repaid in 2030.

18. 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 full actuarial valuation as at 31 March 2022 identified that the funds assets were sufficient to meet approximately 100% 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 2022/23, ESPO paid an employer's contribution of £2,438k (2021/22: £2,256k), into the Pension Fund, representing an average 22.3% 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 2022/23 these amounted to £12k (2021/22 - £12k), representing 0.2% of pensionable pay.

The FRS102 balance sheet position as at 31 March 2023 is £nil (31 March 2022 – £20.2m).

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

18. Employee benefits (continued)

Amounts recognised in the Income Statement in respect of these defined benefit schemes are as follows:

	2023	2022
	£'000	£'000
Current service cost	3,839	4,001
Past service cost	-	-
Net interest cost	575	571
	<u>4,414</u>	<u>4,572</u>

Recognised in Other Comprehensive Income:

	2023	2022
	£'000	£'000
Changes in financial assumptions	27,431	5,417
Changes in demographic assumptions	348	317
Other experience	(3,864)	(132)
Return on assets excluding amounts included in net interest	(1,719)	3,492
	<u>22,196</u>	<u>9,094</u>

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

	2023	2022
	£'000	£'000
Present value of defined benefit obligations	(42,436)	(62,376)
Fair value of scheme assets	42,439	42,159
	<u>3</u>	<u>(20,217)</u>

The liability shows the underlying commitment that the organisation has in the long run to pay postemployment - retirement benefits. This total liability 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 2023

18. Employee benefits (continued)

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

	2023	2022
	£'000	£'000
At 1 April	62,376	62,784
Service cost	3,839	4,001
Interest cost	1,764	1,326
Contributions from scheme participants	573	526
Benefits paid	(774)	(659)
Changes in financial assumptions	(27,431)	(5,417)
Changes in demographic assumptions	(348)	(317)
Other experience	2,437	132
	<hr/>	<hr/>
At 31 March	<u>42,436</u>	<u>62,376</u>

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

	2023	2022
	£'000	£'000
At 1 April	42,159	35,789
Interest income on plan assets	1,189	755
Contributions from the employer	2,438	2,256
Contributions from scheme participants	573	526
Benefits paid	(774)	(659)
Return on assets (excluding amounts included in net interest)	(1,719)	3,492
Other experience	(1,427)	-
	<hr/>	<hr/>
At 31 March	<u>42,439</u>	<u>42,159</u>

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

18. 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:

	2023		2022	
	£'000	% of total	£'000	% of total
Equity Securities				
Consumer	4	0%	49	0%
Manufacturing	21	0%	6	0%
Energy and Utilities	44	0%	60	0%
Financial Institutions	13	0%	85	0%
Health and Care	7	0%	34	0%
Information technology	8	0%	17	0%
Other	35	0%	99	1%
Debt Securities				
UK Government	1,955	5%	2,116	8%
Other	179	0%	79	1%
Private Equity	2,906	7%	2,819	5%
Real Estate				
UK Property	3,008	7%	3,244	7%
Investment Funds and Unit Trusts				
Equities	18,583	44%	19,411	40%
Bonds	-	0%	-	4%
Hedge Funds	-	0%	-	0%
Commodities	1,090	3%	1,058	4%
Infrastructure	3,472	8%	2,204	5%
Other	10,139	24%	8,659	20%
Derivatives				
Foreign Exchange	20	0%	87	0%
Cash and Cash Equivalents	955	2%	2,129	3%
Total	42,439	100%	42,159	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 2023

18. Employee benefits (continued)

	2023	2022
Key assumptions used:		
Discount rate	4.7%	2.7%
Pension Increase Rate (CPI)	3.0%	3.2%
Salary Increase Rate	3.4%	3.6%

Mortality assumptions:

Life expectancy is based on the Fund's VitaCurves in line with the CMI 2021 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.

	2023 years	2022 years
Current Pensioners:		
Males	21.3	21.5
Females	24.4	24.0
Future Pensioners:		
Males	22.1	22.4
Females	25.7	25.7

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 2023 are:

	Approximate increase in Employer Liability	Approximate Monetary Amount £'000
0.1% decrease in Real Discount Rate	2%	934
1 year increase in member life expectancy	4%	1,697
0.1% increase in Salary Increases Rate	0%	123
0.1% increase in the Pension Increase Rate	2%	824

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 2023

18. 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 120% over the next 15 years. Funding levels are monitored on an annual basis. The last triennial valuation was completed on 31 March 2022. Increases in employer's contribution rate that are required within the valuation will be phased in over a three year period commencing 1 April 2023. The contributions payable by ESPO under this valuation are:

2023/24	23.9% of pensionable pay + £403k
2024/25	23.9% of pensionable pay + £417k
2025/26	23.9% of pensionable pay + £432k

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 £2.6m of employer contributions to the scheme in 2023/24 and the weighted average duration of the defined benefit obligation for scheme members is 25 years.

19. 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 2023.

20. 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 2022/23 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 2022/23 no officers declared a pecuniary interest in any contractual or financial transactions.

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

20. Related party transactions (continued)

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 2022/23 these sales totalled £36,328k (2021/22: £31,179k). The breakdown by consortium member authority is as follows:

	2023	2022
	£'000	£'000
Cambridgeshire County Council	5,850	5,078
Leicestershire County Council	5,636	4,989
Lincolnshire County Council	7,114	5,860
Norfolk County Council	9,570	8,155
Peterborough City Council	2,094	1,944
Warwickshire County Council	6,064	5,154
Total	36,328	31,179

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 2022/23 transactions with Leicestershire County Council were:

	2023	2022
	£'000	£'000
Loan repayment (see note 17)	500	500
Loan interest	178	210
Services	921	812
Total	1,599	1,522

Debtors and creditors

	Debtors		Creditors	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Cambridgeshire County Council	372	311	-	-
Leicestershire County Council	276	358	-	-
Lincolnshire County Council	406	539	-	-
Norfolk County Council	707	526	-	-
Peterborough City Council	98	98	-	-
Warwickshire County Council	395	357	-	-
Total	2,254	2,190	-	-

ESPO Trading Limited

Eastern Shires Purchasing Organisation

Notes to the financial statements

For the year ended 31 March 2023

ESPO Trading Limited (ETL), and its 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:

	2023	2022
	£'000	£'000
ESPO Trading Limited		
Sales	729	166
Debtors	30	36
Loan	310	310
	<hr/>	<hr/>

Interest on the loan from ESPO to ESPO Trading Limited accrued at 5% above LIBOR until 31 December 2021, changing to 5% above SONIA from 1 January 2022. The loan is unsecured and is repayable on demand.

	2023	2022
	£'000	£'000
Eduzone Limited		
Sales	420	516
Debtors	139	81
	<hr/>	<hr/>

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

	2023	2022
	£'000	£'000
Operating profit for the financial year	4,174	4,026
Adjustments for:		
Depreciation of property, plant and equipment	643	478
Amortisation of intangible assets	289	247
Profit on disposal of property, plant and equipment	(15)	(4)
Remeasurement of net defined benefit liability	1,368	1,745
Decrease/(increase) in trade and other receivables	(193)	(508)
Decrease/(increase) in inventories	(3,298)	(178)
Increase/(decrease) in trade and other payables	1,370	1,189
	<hr/>	<hr/>
Net cash from operating activities	4,338	6,995
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Annual Governance Statement 2022/23

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. Note that ESPO isn't in receipt of public money for the purpose of providing statutory services in the same way as a Local Authority, rather, ESPO generates its own funds from trading activity. The Consortium members (and through them ESPO) also have 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 (defined as the constituent members) 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

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.

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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 reviewed in 2023.

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 2022-23 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 some actions were overdue.

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 and project groups, 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 Finance & Audit Subcommittee in October. 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.

For 2022-23 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: -

HolIAS opinion

No 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 was reviewed by the Finance & Audit Subcommittee in February 2023. 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

Following a tender exercise in early 2022, which was supported by the Chief Officer's Group, ESPO's external auditor was changed to Fortus Audit LLP. Fortus undertook the external audit for 2021/22 and no significant concerns over governance or internal control were identified. During 2023, Fortus Audit LLP sold their East Midlands business to TC Group Limited, who have taken over the audit of ESPO. TC Group will present their findings on the 2022/23 audit 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 2022/23 report concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control.

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 2022/23, ESPO's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulation. The auditors also issued an 'unqualified' opinion for 2022/23.

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 (or the Audit Manager) 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.

The role, purpose, governance and scrutiny arrangements for ESPO, ESPO Trading Limited and Eduzone, was reported to Leicestershire County Council's Corporate Governance Committee on 21 November 2022.

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 not described in the 1970 Act and associated regulations – e.g. Housing Associations, Charities and Voluntary Organisations. The Trading is governed under the Companies Act 2006, its Articles of Association and Shareholder Agreement.

The ESPO Management Committee receives regular financial and business information to allow its oversight of ESPO Trading Limited's contribution to ESPO's wider business objectives. This includes its international trading, services to those outside of local government including the private sector, Early Years providers, and strategic relationship with Sainsbury's. →

ESPO Trading Limited has its own Board of Directors who oversee the running of the company on behalf of the member shareholders, in addition to the reporting provided to Management Committee. The Board currently comprises of 2 ESPO officers, an officer representative from Leicestershire County Council (in capacity as servicing authority of the Consortium), an officer representative from the remaining members, and an independent non executive director.

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..

7.GOVERNANCE ISSUES

A senior Management Group reviewed the draft AGS and determined if there were any areas for improvement. No significant governance issues were identified during 2022/23. The group comprised of 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

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 2022/23 were sound.

Whilst the review of effectiveness concluded ESPO's overall financial management and corporate governance arrangements during 2022/23 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.

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, 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 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.
- 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. A review and change to public sector procurement legislation (the Procurement Bill) is in the final stages of the parliamentary approval process before Royal Assent and is intended to set out the new rules and procedures following the repeal of the EU based procurement regulations; this is likely to impact on the public sector approach to procurement, and the compliance support provided by ESPO.
- The impact of the upcoming warehouse extension. Both in terms of ensuring the appropriate governance and risk management remains in place as the organisation moves from the planning to the construction phase, and also in terms of ensuring that ESPO is able to make best use of the investment.
- 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. This includes the ongoing development of hybrid working which is being done using guidelines and best practice from Leicestershire County Council.
- Cyber Risks. This is covered under the IT section of the Corporate Risk Register with ESPO continually monitoring and improving its defences.

We are satisfied our existing governance arrangements are sufficiently equipped to allow us to respond to these challenges.

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.

Appendix - AREAS FOR FURTHER DEVELOPMENT IN 2023-24

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	Old/New	Owner	Action to Develop Areas Further	Update - Sep 23	Deadline	Completed?
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	Old	MC	Review the operation of the code of conduct/ethical standards for suppliers.	Introduced onto the 23/24 LCC Internal Audit work plan who have been scoped into supporting a review of supplier compliance surrounding rebates and are currently finalising the suppliers/sites to review/visit.	Spring 2024	
	Old	DG	Develop register to monitor the key areas where laws/regulations compliance is required, levels of risk and areas where action is required.	Delayed due to staff vacancies, but in the plan for Spring/Summer 2024. No concerns held over compliance with laws and regs, this was to improve oversight of compliance and improve governance, rather than correct any specific shortfall.	Summer 24	
Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefit	Old	GF	Define a target, and an accompanying strategy, to reduce carbon emissions.	Included on the ESPO risk register with resource now allocated within ESPO to explore ESPO's role in supporting this agenda. Individual supported with training and working group created to consider current good practice within ESPO and our market and help shape next steps. Emissions reporting included in 23/24 Financial Statements for the first time and provide base against which performance can be measured.	Ongoing	
Principle F: Managing risks and performance through robust internal control and strong public financial management	Old	DAG	Following completion of the ongoing cyber review, complete/implement the remaining recommendations as appropriate.	Audit recommendations significantly cleared, with 1 high importance recommendation relating to legacy systems resolved/completed and awaiting final sign off by Internal Audit.	Dec-23	

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