

Eastern Shires Purchasing Organisation

Report to those charged with governance

Report to the Management Committee of Eastern Shires Purchasing Organisation (ESPO) on the audit for the year ended 31 March 2016
(ISA (UK&I) 260)

Government and
Public Sector

September 2016

11

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Executive summary

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

This report contains a summary of the results of our audit and matters which we ask the Management Committee to consider.

Background

This report tells you about the significant findings from our audit. We presented our plan to you in February 2016; we have reviewed the plan and concluded that it remains appropriate. Details of our Audit Approach are included in the following section of this report.

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts following approval of the Statement of Accounts by the Management Committee on the 28 September 2016.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- completion of our internal review and quality control procedures;
- completion procedures including subsequent events review;
- approval of the Statement of Accounts and letter of representation by the Management Committee; and
- receipt of the final signed Statement of Accounts and the management representation letter.

There are key judgments which require the Management Committee's attention – further details are set out commencing on pages 6 to 12.

The following additional reports have been issued to those charged with governance in 2015/16:

- External Audit Plan 2015/16 – February 2016

The final year of the Audit Commission framework contract and therefore our final year as your external auditor under this contract concluded in 2014/15. We have remained committed to providing you with a high quality service and were delighted to be re-appointed to provide non-statutory audit services this year. We hope to continue to provide non-statutory audit services to you in 2016/17 and beyond.

We thank the Finance Team and others for their support and assistance during the course of our work and look forward to discussing our report with you on 28 September 2016.

The scorecard below summarises our view of your accounts and audit performance:

Key

- **Red** – significant improvements required
- **Amber** – some minor improvements required
- **Green** – no / minimal improvements required

Area	Rating	Comments
Draft accounts	● Green	Your draft accounts were submitted to us in June and were of a good quality. As we would expect in any audit, we identified a small number of disclosure issues which ESPO agreed to amend within the financial statements; none of these disclosure issues were significant.
Readiness for start of audit and working papers	● Green	Working papers were ready for us at the start of the audit, provided electronically and in paper format, to enable us to select samples without delay. This helped the efficiency and smooth running of the audit, and allowed us to make a prompt and efficient start to our work on the first day we arrived on site. Supporting working papers were of a consistently good standard.
Availability and responsiveness of staff	● Green	The finance team and key members of staff were easily accessible to us during the audit and responded promptly to our audit questions and requests for information.
Significant audit and accounting issues	● Green	We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements and will be giving an unqualified opinion on the 2015/16 financial statements.
Deficiencies in internal control systems	● Amber	We have not identified any significant or material deficiencies in internal control, but have identified some matters to bring to your attention later in this report.

Audit approach

The following pages highlight the risks we originally identified in our Audit Plan, and explain what we have done in response.

The risks presented here, Management Override of Controls and the Recognition of Income and Expenditure, are presumed to be significant risks under International Standards on Auditing.

Our audit approach was set in our audit plan which we presented to you in February 2016.

We have summarised below the significant risks we identified in our audit plan relating to the audit of ESPO's financial statements, the audit approach we took to address each risk and the outcome of our work.

Risk

Management override of controls (Significant Risk)

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.

In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this as a significant risk and adapt our audit procedures accordingly.

In your organisation, as the pressure to deliver a surplus increases, so does the risk of management override.

Audit approach and results of work performed

We understood and considered your internal control processes and reviewed the work of Internal Audit to consider the issues they raised and the level of assurance that they provided regarding management's ability to override controls.

We performed the following procedures:

- reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;
- sample tested the appropriateness of journal entries posted during the year on a risk basis;
- reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud;
- evaluated the business rationale underlying significant transactions;
- independently confirmed ESPO's bank accounts and tested the bank and other key control account reconciliations; and
- included an element of 'unpredictability' in our testing, including employing the use of our HALO software to test journal transactions in ESPO's general ledger.

We did not identify any issues to report.

Risk

Risk of fraud in revenue and expenditure recognition (Significant Risk)

Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.

We extend this presumption to the recognition of expenditure in local government.

There is a risk that ESPO could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position.

Audit approach and results of work performed

We understood and considered your internal processes around relevant income and expenditure controls, and reviewed the outcomes of Internal Audit work to establish whether these are operating effectively.

Our final audit procedures included:

- testing the appropriateness of journals processed during the year;
- evaluating accounting policies for income and expenditure recognition to ensure these are consistent with the requirements of the Code of Practice on Local Authority Accounting;
- reviewing significant accounting estimates and judgements for indicators of management bias;
- testing revenue and expenditure cut off at year end;
- understanding how rebate income from suppliers is recognised, and testing this on a sample basis;
- testing a sample of income and expenditure transactions, including accruals; and
- performing analytical procedures on income and expenditure at the year-end.

We did not identify any significant issues, but have brought three issues to your attention later in this report.

Intelligent scoping

In our audit plan presented to you in February 2016 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality thresholds were updated on receipt of the draft 2015/16 financial statements.

Our revised materiality levels are as follows:

	Original £000	Revised £000
Overall materiality	1,403	1,327
Clearly trivial reporting de minimis	94	88

Overall materiality has been set at 2% of actual revenue for the year ended 31 March 2016.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Management Committee at its meeting in February 2016.

Significant audit and accounting matters

There are no material accounting issues to draw to your attention.

However, we have highlighted on the next few pages some of the key issues we have identified in our audit for you to consider.

The level of your reserves continues to be strong. This includes your General Fund and your Earmarked Reserves, which are held for specific future purposes.

We did not identify any accounting adjustments during the audit.

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- completion of our internal review and quality control procedures;
- completion procedures including subsequent events review;
- approval of the Statement of Accounts and letter of representation by the Management Committee; and
- receipt of the final signed Statement of Accounts and the management representation letter.

Subject to the satisfactory resolution of these matters we expect to issue an unqualified audit opinion.

Accounting issues

We identified no material accounting issues, but we would like to draw to your attention the following matters resulting from our work to assist you in fulfilling your governance responsibilities:

Rebate revenue recognition

Many of ESPO's contracts with suppliers contain retrospective rebate agreements. Under the terms of these agreements, ESPO is paid back an agreed percentage of total spend over an agreed period by the supplier. Rebates are always paid at the end of the contract period, which can vary from a few months to a year, and may span more than one financial period.

In 2015/16, rebate income recognised within the financial statements is approximately £6.14m – a record year. The amount recognised in 2014/15 was around £5.87m.

ESPO monitors total spend with each supplier on a monthly basis. At the end of the contract period, the amount of rebate owed to ESPO is calculated based on the percentage outlined in the contract. The supplier pays the rebate once it receives the sales invoice raised by ESPO.

At year end, the rebate is recognised as a debtor because an invoice has been raised to the supplier based on the amount of rebate due to ESPO. The cash is accounted for in the period in which it is received.

Each year, some cash is received after ESPO closes its accounts in early May, meaning it is recorded in the following financial year. This approach is consistent with that applied in previous years. Management has estimated that approximately £236,000 of rebate income related to 2015/16 has been received after the accounts were closed, meaning that this will be accounted for in 2016/17 instead. As this happens each year, the overall impact on ESPO's surplus on a yearly basis is unlikely to be material.

The Financial Reporting Council published an article in December 2014 urging clarity in the reporting of complex supplier arrangements. They also noted that they expect to see high quality disclosure of this area in future accounts. We worked with management in March 2015 to ensure that there is adequate disclosure of ESPO's accounting policy for rebate income within the accounts, and have undertaken detailed testing in 2015/16 to ensure ESPO's rebate income transactions are recognised appropriately based on the below policy;

"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."

Gas accruals

The Committee procures gas on behalf of its customers from Total Gas. Because ESPO does not have access to its customers' meters, accruing for gas used but not billed would be costly, and gas costs are therefore accounted for on a cash basis.

We checked that the volumes of gas used and the number of contracts is reasonably constant. On this basis, the impact on ESPO's surplus is unlikely to be material because it is a small percentage of gas consumed. The approach adopted this year is consistent with previous years and no further exceptions have been noted to bring to your attention on this matter.

Direct sales cut-off

Some of the goods that ESPO sells to customers are through direct sales, rather than being from the warehouse inventory. Under these arrangements, the customer orders directly from the supplier and the goods are delivered directly to the customer.

ESPO receives the sales invoice from the supplier, and subsequently raises a sales invoice to the customer. It is upon receiving the invoice that ESPO is made aware of the order, so it is difficult to know what has been ordered directly from suppliers around year end.

During our expenditure sample testing, we identified some cut-off errors as we have in previous years, where the goods had been ordered in 2014/15 and the supplier invoice dated also in 2014/15. Because ESPO does not receive confirmation from its customers at year end of how much has been ordered, no accrual is made for these transactions. Management told us that it would be very costly and resource-intensive to request confirmations from each customer.

This is a cyclical process and the impact on ESPO's accounts is unlikely to be material because it is a small percentage of the annual income and expenditure that is ordered around year end. The approach adopted this year is consistent with previous years and no further exceptions have been noted to bring to your attention on this matter.

We ask you to confirm in the letter of representation (Appendix) that you are satisfied with the appropriateness of accounting for the above three arrangements on a cash, rather than an accruals, basis.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We are also required to report to you material amendments made to your draft accounts as a result of the audit.

We are pleased to report that our work there are no uncorrected misstatements to your draft accounts.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered. Please refer to the management representation letter in the Appendices.

Judgments and accounting estimates

ESPO is not required to prepare its financial statements in accordance with the CIPFA Code under a statutory obligation, but has chosen to continue to do so in 2015/16. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of non-current assets

The valuation of non-current assets is an area of significant judgement within the accounts. You have used an independent valuer from Leicestershire County Council to revalue your main office and warehouse building as at 31 March 2016. This resulted in a valuation gain of £0.5m to £11.0m. We have used our specialist valuation team to review the assumptions used by the valuer who assessed these assumptions against property valuations data. We also performed work to assess the reasonableness of the floor plans used in the valuer's assessment, as it is this base data that drives the valuation. We have confirmed your approach is reasonable.

Accruals

Accruals for expenditure and income are raised where an invoice has not been received or raised at the year-end, but the Committee knows that there is a liability to be met which relates to the current year. This involves a degree of estimation. Detailed testing was performed on significant accruals. No misstatements were identified from this work.

We ask management to send us a letter of representation before we sign our audit opinion. A draft of that letter is included in Appendix 1.

We are required to demonstrate our independence by professional standards. Maintaining our independence is important to us in delivering you a robust external audit.

We have concluded that we are independent and comply with the relevant UK regulatory and professional requirements.

Bad Debt Provision

Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision, which is £30k as at 31 March 2016 (£48k as at 31 March 2015). We have considered the recoverability of debtors and have not identified any significant concerns in the way that you have calculated your bad debt provision.

Overall we found your significant judgements and accounting estimates to be reasonable.

Management representations

The final draft of the representation letter that we ask management to sign is attached in the Appendices.

Financial standing

You identified no material uncertainties related to events and conditions that may cast significant doubt on the Committee's ability to continue as a going concern and that in overall terms there are sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We concluded that this consideration is appropriate.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

To confirm completeness we performed a range of additional procedures to identify potential related party transactions and did not identify matters during the course of our work.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Committee

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Committee or investments in the Committee held by individuals.

Employment of PricewaterhouseCoopers staff by the Committee

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Committee as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Committee.

Services provided to the Committee

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices. We have not undertaken any non-audit services at the Committee during 2015/16.

Fees

The analysis of our audit fees for the year ended 31 March 2016 is included on page 16.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.


Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of the Committee, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.



We would ask the Management Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

These areas form part of your plan for improving corporate governance throughout the organisation and we are satisfied that you have proposals to achieve these improvements.

We identified no significant deficiencies in internal control to report to you.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

No significant deficiencies in internal control were identified through our work, but the following matters are brought to your attention:

Deficiency	Recommendation
<p>Detailed transaction reports:</p> <p>Our audit technology enables us to extract and analyse every transaction in a client's general ledger over a defined period through implementation of our HALO software. The transaction output extracted from ESPO's general ledger had several limitations, and did not include details of;</p> <ul style="list-style-type: none">- Whether a transaction had been manually posted by staff, or if it was automated within the ledger.- The date and time a transaction had been posted.- The individual who had posted a transaction in the ledger.- Any description included in the posting, e.g: "month end payroll expenditure" <p>These limitations prevented us from undertaking a series of procedures in our journals testing.</p>	<p>Investigate the reporting capability of the general ledger software to ensure both management and auditors have access to full details of ESPO's financial transactions in the reporting period.</p>

<p>Aged creditors:</p> <p>Our review of the detailed aged creditors listing at year-end found a number of historic balances, some dating back to 2003, with entities who are now dissolved.</p>	<p>Although the value of historic balances is immaterial – approximately £50k – it is recommended management undertake a cleansing procedure to remove historic creditor balances with entities that no longer exist.</p>
<p>Aged debtors:</p> <p>Our review of the debtors subledger at year-end noted a significant number of historic balances, some of which dated back as far as 2007.</p> <p>Many of the historic balances had a net value of zero due to corresponding uncleared credit notes or other related invoices.</p>	<p>Although the value of the historic balances is approximately £70k, management should undertake a cleansing procedure of the debtors subledger to reduce the high volume of historic balances and transactions which are no longer due.</p>
<p>Accruals breakdown:</p> <p>Management post a liability accrual at year-end for any expenditure items whereby goods have been received by ESPO but an invoice from the supplier has not been received.</p> <p>Our review of the detailed listing of this accrual found that a significant volume of line items in this listing had been reversed once the invoice had been received, rather than clearing down the original accrual entry to include on those items where an invoice was still to be received.</p> <p>As such, the detailed listing consisted of thousands of lines, many of which could be removed.</p>	<p>Management should consider reviewing their process for producing a detailed listing for goods received but not yet invoiced.</p> <p>Management should compile a streamlined and relevant breakdown of entries that remain liabilities at the time of final audit.</p>
<p>Journal error:</p> <p>A journal was posted in error to the general ledger for a cash entry of £12,300k. The correct value of the journal was £1,230k. As such, management were required to post an adjusting journal to reverse the error.</p> <p>ESPO operates a control whereby journal entries are required to be authorised by a different individual to that who has created the entry.</p> <p>In the above instance, the adjusting journal to reverse the error did not include a supporting voucher with a relevant authorisation signature.</p>	<p>Although the correction of the error had been reviewed and appropriately signed by management at a later date as part of the monthly bank reconciliation process, we would expect a posting error of this monetary value to also have supporting documentation in line with ESPO's control process for other journal entries.</p>

We ask that the Management Committee, as those charged with governance, confirm to us that there are no additional matters relating to fraud that should be brought to our attention.

As part of work to address the risk of fraud, we use data auditing techniques to select journal entries which we believe have a greater risk of containing fraud or error.

We identified no issues to report to you as part of this work.

Risk of fraud

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

Auditors' responsibility

Our objectives are:

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

Management's responsibility

Management's responsibilities in relation to fraud are:

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

Responsibility of the Management Committee

Your responsibility as part of your governance role is:

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

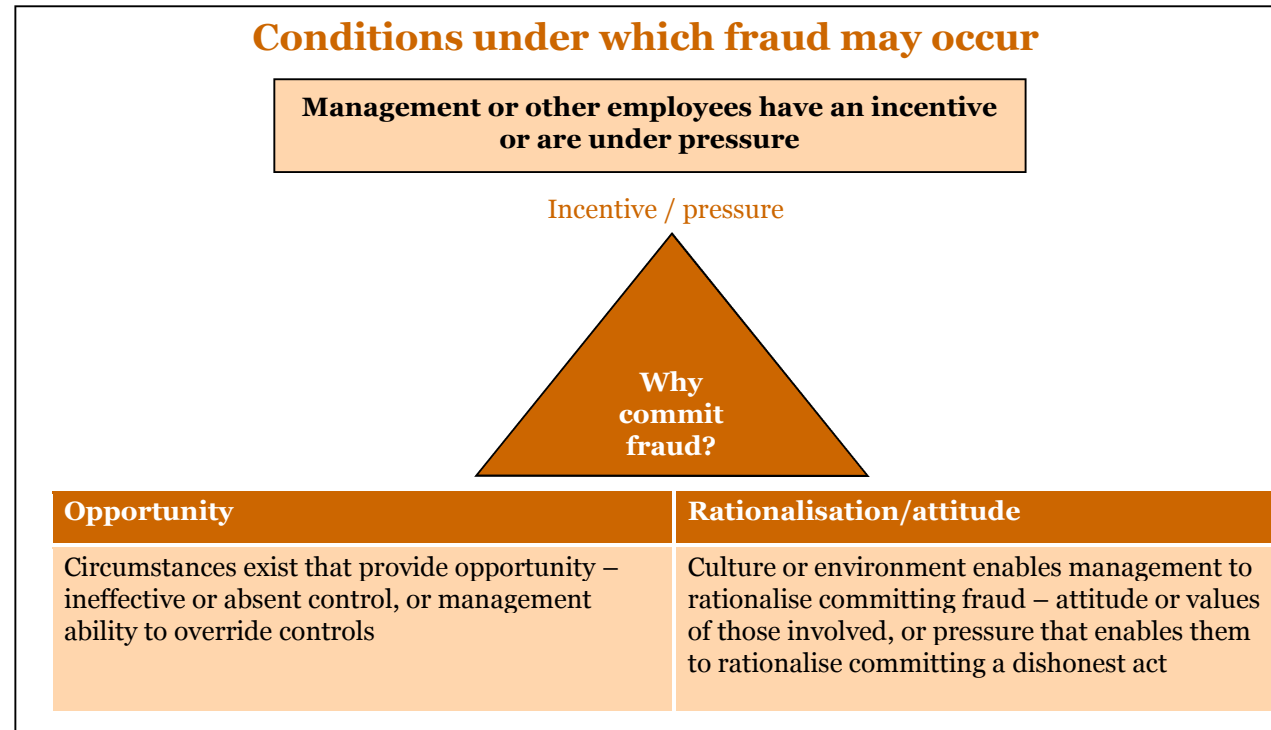
Your views on fraud

In our audit plan presented to the Management Committee in February 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?

- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.



Fees update

Fees update for 2015/16

We reported our fee proposals in our plan. Our actual fees are consistent with those planned and fees charged were therefore:

	2015/16 outturn (£)	2015/16 fee proposal (£)
Audit work performed:	25,000	25,000
Total	25,000	25,000

Appendices

There are a number of matters on which we are required to ask for a written representation.

A draft letter of representation is included in this appendix.

Appendix 1: Letter of representation

PricewaterhouseCoopers LLP

Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Your Ref: ESPO RB 2015/16

Dear Sirs

Representation letter – audit of Eastern Shires Purchasing Organisation (the “Organisation”) Statement of Accounts for the year ended 31 March 2016

Your non-statutory audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Committee give a true and fair view of the affairs of ESPO as at 31 March 2016 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 supported by the Service Reporting Code of Practice 2015/16.

I acknowledge my responsibilities as Treasurer for preparing the financial statements as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Committee and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Committee with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 supported by the Service Reporting Code of Practice 2015/16; in particular the Statement of Accounts give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

Significant assumptions used by the Committee in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 requires adjustment or disclosure have been adjusted or disclosed.

The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Committee's auditors, are aware of that information.

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of relevant management and Committee meetings;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the Committee from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Committee's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the selection and application accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Committee's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud;
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Committee and involves:
 - management;

- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the Statement of Accounts;
- all information in relation to allegations of fraud, or suspected fraud, affecting the Committee's Statement of Accounts communicated by employees, former employees, analysts, regulators or others; and
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Committee conducts its business and which are central to the Committee's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Committee's related parties. All transfer of resources, services or obligations between the Committee and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 have been entered into.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the Committee participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Committee have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been

appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the Committee's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Committee or any associated company for whose taxation liabilities the Committee may be responsible.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Going Concern

An assessment has been made of the financial health of the Committee for a period of at least one year from the approval of the financial statements.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Accounting estimates: measurement processes, assumptions, disclosures and effects of subsequent events

Regarding accounting estimates that were recognised in the Statement of Accounts, I confirm that:

- the Committee has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Accounting in the United Kingdom 2015/16;
- measurement processes were consistently applied from year to year;

- the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Committee, where relevant to the accounting estimates and disclosures;
- disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16; and
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against inventory, and property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Committee's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

I confirm that the Committee does not have plans to implement any redundancy/early retirement programmes for which we should have made provision in the Statement of Accounts.

Using the work of experts

I agree with the findings of the Leicestershire County Council valuations experts in evaluating the valuation of our non-current assets, experts in providing estimates of fair values in respect of financial liabilities. I have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Committee did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2016, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2016 have been properly valued and that valuation incorporated into the financial statements.

The value at which assets and liabilities are recorded in the Balance Sheet is, in the opinion of the Committee, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately



reflect our intent and ability to carry out specific courses of action. Any significant changes in those values since the date of the financial statements have been disclosed to you.

The Committee has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.

In my opinion, on realisation in the ordinary course of the business, the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Committee has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Committee has satisfactory title to all assets and there are no liens or encumbrances on the Committee's assets, except for those that are disclosed in the Statement of Accounts.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Cash Accounting:

I am satisfied that in relation to issues stated regarding rebate revenue recognition, gas accruals and direct sales cut-off in the ISA260, it is appropriate that these are accounted for on a cash basis and that due to their nature, accounting for these on an accruals basis would not result in a material difference.

As minuted by the Management Committee at its meeting on 27 September 2016

.....

Consortium Treasurer

For and on behalf of Eastern Shires Purchasing Organisation

Date



Appendix 1 - Related parties and related party transactions

Type of related party relationship

Client response and Details

List all parties (both persons and entities) with control¹ or joint control² of the reporting entity.

Where these parties are persons:

- List their close family members³, and any other entities controlled¹ or jointly controlled² by these persons or their close family members³.
- List the entities over which these persons or their close family members³ have significant influence⁴ (either by holding key management positions⁵ or otherwise). Include entities that are controlled or jointly controlled by those entities.

List all parties (both persons and entities) with significant influence⁴ over the reporting entity.

Where these parties are persons:

- List their close family members³, and any entities controlled¹ or jointly controlled² by these persons or their close family members³. Include entities that are controlled or jointly controlled by those entities

List all key management personnell⁵ of the reporting entity.

ESPO is a Joint Committee set up under Section 102 of the 1972 Local Government Act. The member authorities at 31 March 2015 were Cambridgeshire, Leicestershire, Lincolnshire, Norfolk and Warwickshire County Councils together with Peterborough City Council.

The Leadership Team consist of:

The Director; John Doherty,
Deputy Director (& Chief Commercial Officer) Kristian Smith
The Assistant Director Finance & Governance; Clive Pitt
The Assistant Director Operations; David Godsell

Key Management personnel:

The leadership Team.

¹ An individual controls the company when the individual is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company [IFRS10].

² Joint control is where two or more parties are bound by a contractual arrangement, and the contractual arrangement gives two or more of those parties joint control of the company [IFRS11].

³ Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (a) that person's children and spouse or domestic partner; (b) children of that person's spouse or domestic partner; and (c) dependants of that person or that person's spouse or domestic partner [IAS 24].

⁴ Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies [IAS28].

⁵ Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity [IAS24].

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List key management personnel⁵⁵ close family members⁵³, and any other entities controlled¹ or jointly controlled² by key management personnel or their close family members⁵³. Include entities that are controlled or jointly controlled by those entities.

List all entities within the reporting entity's group – parents, subsidiaries, and fellow subsidiaries.

[No parties identified]

List the reporting entity's joint ventures and associates (and their subsidiaries). Also list other group members' joint ventures and associates (and their subsidiaries).

[No parties identified]

If the reporting entity is itself a joint venture:

- List all venturers, these venturers' group members and that group's associates or joint ventures).

If the reporting entity is itself an associate:

- List all investing entities, these investing entities' group members and that group's joint ventures.

List all post-employment benefit plans for the benefit of the reporting entity, or any entity disclosed within the above questions.

The Defined Benefits Pension Fund is administered by Leicestershire County Council, ESPO's servicing authority.

If the reporting entity is itself a post-employment benefit plan:

- List all sponsoring employers.

If the reporting entity is required to adhere to the UK Financial Conduct Authority ("FCA")'s Listing Rules ("LR") (i.e., the reporting entity has UK premium or standard listing, or is a subsidiary of a UK premium or standard listed entity), additional related parties are defined by the FCA's LR:

Not applicable

- A substantial shareholder. This is any person who is, or was within the last 12 months, entitled to exercise or control the exercise of 10% or more of votes able to be cast

on all or substantially all matters at general meetings of the company (or of any company that is its parent, subsidiary or fellow subsidiary undertaking). Certain persons are excluded from this definition – see guidance footnote⁶

- *A director (including a shadow director and a person who was a director or shadow director within the last 12 months) of the company or any company that is (and, if they ceased to be such, was while they were a director or shadow director of such other company) its subsidiary undertaking or parent undertaking, or a fellow subsidiary undertaking of its parent undertaking.*
- *A person (individual or legal entity) exercising significant influence.*
- *An associate of a substantial shareholder, director or person exercising significant influence, as follows:*
 - *In relation to an individual, this includes the following:*
 - *An individual related party's spouse, civil partner or child (together 'the individual's family').*
 - *The trustees (acting as such) of a trust of which the individual or any of the individual's family is a beneficiary or discretionary object, other than certain trusts that are occupational pension schemes or employees' share schemes.*
 - *A company in whose equity shares the individual and/or members of the*

⁶ The definition of a substantial shareholder disregards any voting rights that the person exercises (or controls the exercise of) independently in its capacity as bare trustee, investment manager, collective investment undertaking or a long-term insurer in respect of its linked long-term business if no associate of that person interferes by giving direct or indirect instructions, or in any other way, in the exercise of such voting rights (except to the extent any such person confers or collaborates with such an associate that also acts in its capacity as investment manager, collective investment undertaking or long term insurer). [LR App 1]

individual's family (taken together) have an interest that enables them (or would do so on the fulfilment of a contingency), directly or indirectly, to exercise or control the exercise of 30% or more of votes at general meetings on all, or substantially all, matters; or appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters.

For the purpose of the above bullet point, if more than one director of the listed company, its parent or any of its subsidiaries is interested in the equity securities of another company, then the interests of those directors and their associates are aggregated when determining whether that company is an associate of the director.

- *In relation to a company, this includes the following:*
 - *Any other company that is its subsidiary undertaking or parent undertaking or fellow subsidiary undertaking.*
 - *Any company whose directors are accustomed to act in accordance with the substantial shareholder's or person exercising significant influence's directions or instructions.*
 - *Any company in the capital of which the substantial shareholder or person exercising significant influence and any other company that is an associate taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency*

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be) able to exercise or control the exercise of 30% or more of votes at general meetings on all, or substantially all, matters; or appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters.

The Listing Rules also limit the nature of the transactions which must be reported if entered into with any of these parties, and provide certain exemption criteria for transactions. In excess of these being required to be reported within the reporting entity's financial statements (LR 11.1.10R), there are also other required actions the reporting entity and/or listed entity must complete – please seek legal advice if you are unaware of these requirements.

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If the reporting entity is required to adhere to the Alternative Investment Market ("AIM") Rules (i.e., the entity is AIM listed), additional related parties are defined by the AIM Rules:

N/A

- a) **any person who is a director of the reporting entity or of any company which is its subsidiary or parent undertaking, other subsidiary undertaking of its parent company;**
- b) **Any person with a holding of 3% or more in any class of AIM security in the reporting entity (excluding treasury shares);**
- c) an associate of (a) or (b) being:
 - i. **the family of such a person;**
 - ii. **the trustees (acting as such) of any trust of which the individual or any of the individual's family is a beneficiary or discretionary object (other than a trust which is either an occupational pension scheme as defined in regulation 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, or an employees' share scheme which does not, in either case, have the effect of conferring benefits on persons all or most of whom are related parties).**
 - iii. **any company in whose equity shares such a person individually or taken together with his or her family (or if a director, individually or taken together with his family and any other director of that company) are directly or indirectly interested (or have a conditional or contingent entitlement to become interested) to the extent that they are or could be able:**
 - **to exercise or control the exercise of 30% or more of the votes (excluding treasury shares) able to be cast at general meetings on all, or**

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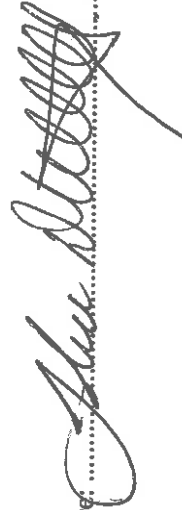
substantially all, matters; or

- to appoint or remove directors holding a majority of voting rights at board meetings on all, or substantially all, matters;

- iv. any other company which is its subsidiary undertaking, parent undertaking or subsidiary undertaking of its parent undertaking;
- v. any company whose directors are accustomed to act in accordance with (a)'s directions or instructions; any company in the capital of which (a), either alone or together with any other company within (iv) or (v) or both taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) interested in the manner described in (iii);
- d) any person who was a director of the reporting entity or any of its subsidiaries, sister or parent undertakings or a substantial shareholder within the twelve months preceding the date of the transaction.

The AIM Rules also limit the nature of the transactions which must be reported if entered into with any of these parties, and provide certain exemption criteria for transactions. In excess of these being required to be reported within the reporting entity's financial statements (AIMR19), there are also other required actions the reporting entity and/or listed entity must complete – please seek legal advice if you are unaware of these requirements.

I confirm that the above listing is, to the best of my knowledge having made appropriate enquiries of others complete and all information is accurate.

Signature:..... Date: 8th July 2016

In the event that, pursuant to a request which Eastern Shires Purchasing Organisation (ESPO) has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Eastern Shires Purchasing Organisation (ESPO) agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Eastern Shires Purchasing Organisation (ESPO) shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Eastern Shires Purchasing Organisation (ESPO) discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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