

Audit strategy memorandum

Year ending 31 March 2017

*Eastern Shires
Purchasing
Organisation*

February 2017





Private and Confidential

Eastern Shires Purchasing
Organisation
Barnsdale Way
Grove Park
Enderby
Leicester
LE19 1ES

February 2017

Dear Management Committee members,

Eastern Shires Purchasing Organisation (ESPO) – 2016/17 Audit Strategy

I am delighted to present our plan for the audit of the financial statements of ESPO for the year ending 31 March 2017.

The opportunity to discuss our plan with you enables us to understand your expectations and supports us in providing the highest level of service.

We have shared a copy of this plan with management and have incorporated their comments as appropriate. We shall continue to work closely with them to ensure that our approach is updated between now and the year end, incorporating any further business changes and reflecting any new accounting or auditing issues as they arise.

We look forward to discussing this plan with you at your meeting on 28 February 2017. Attending the meeting will be Catherine Bru.

Yours faithfully

Alison Breadon

For and on behalf of PricewaterhouseCoopers LLP

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Section 1

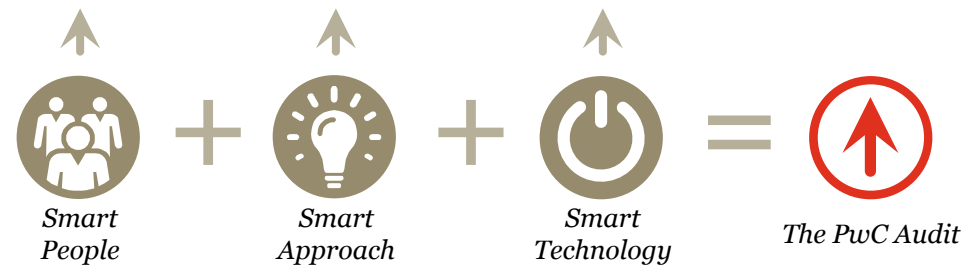
Our audit approach

Our audit is based upon a series of elements that ensure quality, rigour, relevance and the highest level of professionalism. It is designed to enable us to fulfil our requirements as auditors in an increasingly complex and more demanding reporting and regulatory environment. Our approach incorporates the most up to date tools and methodology in the delivery of the audit.

We work hard to ensure a quality, efficient audit that minimises management time and provides relevant insight and gives maximum assurance.

PwC's audit is built on a foundation of using people who understand the industry you operate in, and advanced technology to help us keep our audit focused on the areas that matter, undertake our work efficiently and to help us keep your information safe. This together with our six step audit process, results in an audit that is robust, insightful and relevant.

- 1. Client acceptance and independence
- 2. Deep business understanding
- 3. Relevant risks
- 4. Intelligent scoping
- 5. Robust testing
- 6. Meaningful conclusions



Section 1

Our audit approach (continued)

Client acceptance and independence

We are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. We can confirm that we continue to be independent of the organisation.

Throughout our work with you, any potential further work outside of the audit, which could impact our independence, will be promptly discussed with the Management Committee.

Deep business understanding

Auditing Standards and other regulations cover a comprehensive list of areas to be considered when developing our understanding. These include the nature of the business and industry, strategy, performance, internal controls and systems. Achieving an understanding of your business has multiple objectives:

- to establish business risks faced by ESPO, which forms the foundation for our audit risk assessment;
- to scope and design our audit to respond to the relevant risks; and
- to enable us to provide business insight.

This understanding is enhanced by the breadth of commercial expertise and experience both within the audit team and the wider firm and which enables us to provide meaningful perspectives on the Organisation. We have identified some of the key business changes currently influencing management's decisions which may impact the audit:

Presentation of financial statements

The Organisation is considering changing the way in which income streams presented in the accounts to reflect more accurately how the business operates. We will ensure that the prior year comparatives are appropriately presented in the financial statements, and appropriate disclosures made.

Implementation of a new gas system

The Organisation has implemented Optima, a new gas system, in 2016/17. The system rollout has been halted due to some issues with recording, so the existing system, Gems, is being run concurrently. We understand that in the 2016/17 financial systems, data from both systems will be included.

We will understand the steps taken by management to ensure that the figures reported in the financial statements are accurate and will perform testing to ensure that we have sufficient assurance that the financial statements are not materially misstated.

Becoming a limited company

Although there will be no impact on the 2016/17 financial statements, the Organisation continues to explore alternative options including becoming a limited company in the near future to increase its trading remit.

We will provide insight to management on how best to achieve and manage this transition.



Section 1

Our audit approach (continued)

Relevant audit risks

We will focus our audit effort on those areas that we determine to be of higher risk, which we have identified through our rigorous planning procedures and discussions with senior management to date. In our view there are two significant audit risks as specified by Auditing Standards.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement. This subsequently drives the design of our testing procedures.

Significant	Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
Normal	We perform standard audit procedures to address normal risks in all other material financial statement line items.



Section 1

Our audit approach (continued)

Risk	Significant / elevated risk	Reason for risk identification	Key aspects of our proposed audit approach
Management override of controls	Significant	This is a required significant risk under the ISAs. There is an inherent risk of fraud as a result of management override of controls in all entities as senior management can potentially override controls.	<p>We will:</p> <ul style="list-style-type: none">• Review your internal control structure.• Focus our work on testing of journals. This will provide you with assurance over the level of manual and automated journals. We will test all journals which meet our considered view of where fraudulent journals may occur• Perform targeted testing over significant estimates within the financial statements.• Carry out unpredictable procedures – this will involve performing ad hoc testing that has not previously been performed over one or more controls or financial statement balances.• Focus our detailed audit work on areas where fraud could be committed and where there is less segregation of duties.• Consider and challenge areas of significant estimate or judgement which materially impact the financial statements; and• Address all areas with professional scepticism and corroborate management’s explanations by supporting evidence.



Section 1

Our audit approach (continued)

Risk	Significant / elevated risk	Reason for risk identification	Key aspects of our proposed audit approach
Fraud in Revenue and Expenditure recognition	Significant	<p>Again, another required significant risk under ISA's is Fraud in Revenue Recognition. The ISAs assume a 'rebuttable presumption' that there is a significant risk of fraud in revenue recognition in all businesses.</p> <p>For expenditure, we consider the significant risk is focused around judgements and estimates (accruals and provisions) and any large, one off transactions.</p>	<p>We will:</p> <ul style="list-style-type: none">• Review the design and operating effectiveness of key income and expenditure controls.• Evaluate the accounting policies for income and expenditure recognition.• Test the appropriateness of journal entries and other adjustments. This will include testing accounting estimates and other adjustments for non-pay expenditure items.• Review accounting estimates for income and expenditure, for example, rebates and provisions.• Analyse trends in relation to income and expenditure during the year and seek to understand any unusual variations.• Reconcile your management information to the information presented in the accounts on a gross basis.• Undertake testing procedures to ensure rebate income is recognised in line with the accounting policy and within the correct period to which it relates.• Test the existence of provisions.



Section 1

Our audit approach (continued)

Intelligent Scoping

Materiality

The extent and nature of the audit procedures we perform is underpinned by our assessment of materiality. Our overall materiality level for the group is based on 2% of forecast revenue, which we consider to be the most appropriate performance measure for the Organisation. We set overall materiality to assist our planning of the audit strategy and to assess the impact of any adjustments identified however we are required by International Auditing Standards (UK&I) to communicate accumulated misstatements identified during the audit to those charged with governance, unless they are clearly trivial. We have proposed our de minimus SUM level (Summary of Uncorrected Misstatements) to be 5% of our overall materiality levels to ensure that some items, whilst individually immaterial, are still reported to you appropriately. This is consistent with our approach last year.

Benchmark	Revenue / Total assets as at 31 March 2016	Overall materiality level (£'000)	De minimus SUM level (£'000)
2% of revenue	£88.5 million	1,769	88



Section 2

Audit timetable

Set out below is the proposed audit timetable for the year:

Activity	Proposed timing
Management Committee – Presentation of audit plan	28 February 2017
Audit deliverables agreed for interim audit	27 February 2017
Interim audits	
Audit work	6 March 2017 – 10 March 2017
<ul style="list-style-type: none">• Controls testing for key business cycles• Set up HALO over journals, revenue and payroll• Testing of IT controls• Early substantive testing	
Audit deliverables agreed for final audit	12 May 2017
Final audit and accounts	
Audit work	12 June 2017 - 23 June 2017
<ul style="list-style-type: none">• Full scope audits• Review of financial statement disclosures	
Clearance meeting with Clive Pitt	23 June 2017
Share draft reports with management for comment	July 2017
Response from management on draft reports	July 2017
Management Committee papers issued	September 2017
Management committee – Presentation of final findings	September 2017



Section 3

Fraud Risk Assessment

We are required under ISA 240, “The auditor’s responsibility to consider fraud in an audit of financial statements” to explicitly consider the risk of fraud while planning our audit. There are generally three conditions that exist when a fraud takes place; incentive, opportunity and rationale.

We perform specific testing that considers fraud and also undertake general procedures including making enquiries of senior management and other officers of the Organisation, and the evaluation of management’s processes and controls relating to fraud.

Fraud risk area	Audit response
Deliberate manipulation of results	<ul style="list-style-type: none">• Review journals meeting key risk criteria.• Perform unpredictable audit procedures, such as testing items that are immaterial or would not normally be included in our testing.• Review areas of significant management judgement and unusual transactions.
Improper revenue recognition	<ul style="list-style-type: none">• Auditing standards require us to ordinarily presume there is a risk of material financial statement misstatement due to fraud related to revenue recognition.• Our procedures will include a review of revenue recognition policy changes, review of significant adjustments to revenue and appropriate substantive procedures.
Management override of controls	<ul style="list-style-type: none">• Even if specific risks of material misstatement due to fraud are not identified, there is a possibility that management override of controls could occur. This risk is addressed through assessment of the overall control environment and the ‘tone at the top’ of the organisation together with the other procedures set out in this table (e.g. journal testing etc.).



Section 4

Engagement team

Our core team

Our team has been structured to bring the right combination of skills, experience and innovation to the audit.

Alison Breadon

Partner

07740 894 795

Alison.breadon@pwc.com

Alison will have overall responsibility for your audit in 2016/17, providing you with challenge and insight.

Catherine Bru

Audit manager

07701 296 653

catherine.j.bru@pwc.com

Catherine will be responsible for the day to day delivery of the 2016/17 audit, ensuring that the fieldwork runs smoothly and to plan. She will liaise with Clive and the finance team to provide regular progress updates.





Section 5

Audit fees

Set out below are our audit fees for the audit.

	2017 £	2016 £
Recurring audit fee	25,000	25,000
Total audit fee	25,000	25,000

This fee includes expenses, however excludes VAT.

We have based the fee level on the following assumptions:

- Management meeting the timetable of deliverables, which we will agree in writing;
- We are able to use the work of internal auditors for the purposes of our audit, where planned; and
- We are able to draw comfort from your management controls.

As always, where such changes materially alter the level of underlying work required, we will discuss this with Clive Pitt and the Management Committee in order to ensure any resultant fee changes, either up or down are agreed in advance.

Appendices

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Appendix 1 - Recent developments

Keeping you up to date

Accounting and other developments

What is the issue?

Over the next three years, there will be a number of amendments and additions to accounting standards.

For **2016/17**, there are no new standards, but some have been amended, including:

- IAS 1 *Presentation of Financial Statements*
- IAS 16 *Property, plant and equipment* and IAS 36 *Intangible assets*

For **2017/18**:

- IAS 7 *Cash flow statements*

For **2018/19**:

- IFRS 15 *Revenue from contracts with customers*
- IFRS 9 *Financial instruments*

For **2019/20**:

- IFRS 16 *Leases*

How does it impact you?

- **Amendment** - IAS 1 *Presentation of Financial Statements* – the amendment focusses on whether disclosures are material and encourages entities to apply professional judgement when determining what information to disclose in their financial statements.
- **Amendment** - IAS 16 *Property, plant and equipment* and IAS 36 *Intangible assets*. The amendment clarifies that revenue based depreciation methods are not allowed.
- **Amendment** - IAS 7 *Cash flow statements* – the standard been amended to require additional disclosures relating to changes in liabilities relating from financing activities. These disclosures include changes arising from cash flow and non-cash flow changes.
- **Implementation** - IFRS 15 *Revenue from contracts with customers* will need to be implemented along with the subsequent clarifications to the standard. The expected implementation date is 1 January 2018. Applying the new standard will require a full review of all income streams
- **Implementation** - IFRS 9 *Financial instruments* has an expected implementation date of 1 January 2018. As ESPO does not currently hold complex financial instruments, the impact is likely to be minimal. Under the new standard, there will be only three categories of financial asset:
 1. fair value through P&L;
 2. fair value through other comprehensive income; and
 3. amortised cost
- **Implementation** - IFRS 16 *Leases* has an expected implementation date of 1 January 2019. The standard will bring all leases onto the statement of financial position.

How can we help?

We can support you in ensuring that new and amended standards are appropriately incorporated into the Organisation's financial statements. We can review your current disclosures and provide best practice examples to improve your current reporting.

Appendix 2: Engagement letter



Private and confidential

ESPO Management Committee
Eastern Shires Purchasing Organisation
Barnsdale Way
Grove Park
Enderby
Leicester
LE19 1ES

14 February 2017

Attn: Mr Clive Pitt and Mr John Doherty

Dear Sirs,

Provision of audit services in connection with your non-statutory annual financial statements for Eastern Shires Purchasing Organisation (ESPO) (the “entity”)

Thank you for engaging us to provide you with services on terms which are described in this letter and the attached terms of business (version ToB 10/16). These together form the agreement between us.

Background and purpose

You have advised us that you require an audit of your non-statutory financial statements of Eastern Shires Purchasing Organisation (the Organisation) for the year ended 31 March 2017. The services are provided solely for your private use to assist you to discharge your stewardship obligations and fiduciary responsibilities in respect of the purpose.

The services

The services described in the agreement will comprise audit services for the financial year ending 31 March 2017 and subsequent years until terminated or superseded with a new written agreement. Any unfinished audits on the Organisation’s financial statements for prior years will remain subject to the relevant previously signed agreement.

The scope of our audit services and our respective responsibilities are set out in Schedule 1.



Appendix 2: Engagement letter (continued)

Timetable and duration

We propose to start work in February 2017 and estimate that we will complete our audit by September 2017. This is an estimate in advance of starting work and we will keep you informed of our progress and of any proposed changes in this timetable.

Staffing

Alison Breadon is the person in charge of providing the services to you, assisted by other staff as we believe are required. If we believe that it is necessary for us to change any of the named individuals we will let you know.

Client contact

You have designated Clive Pitt to be our primary contact when delivering the services as a person with the knowledge, experience and ability to make decisions in relation to the services and our recommendations.

Our day to day contact for administrative matters will be Sheetal Lakhani.

Fees

Details of our fees and proposed billing arrangements are the subject of a separate letter which will form part of the agreement.

Additional provisions regarding our fees and billing arrangements are set out in the attached terms of business.

Terms of business

Liability limitation

We draw your attention to clauses 8 and 12.3 in the attached terms of business which amongst other things limit (i) our total liability for all claims connected with the services or the agreement, which will be 3 times fees or £1,000,000, whichever is greater, as detailed in clause 8.2 and (ii) the time for bringing any such claim.

Agreed amendments to the terms of business

Clause 2.5 of the terms of business does not apply. The scope of our services, including the auditors' responsibilities in relation to fraud in the audit of the financial statements, are described in Schedule 1.

In clause 3.1 the final sentence "We will not verify any information given to us relating to the services" does not apply.

Appendix 2: Engagement letter (continued)



Clause 10.2 is amended to read: “Release – We do not release materials which belong to us (including our working papers, which shall include all documentation prepared by us in relation to the services) unless we have specifically agreed to do so or where required by law or regulation. We may require a release letter from the recipient as a condition of disclosure.”

The following additional clauses shall be added to the terms of business:

Clause 10.3 - Professional time and expenses: If either (i) we are required by law, regulation, or a professional body of which we are a member; or (ii) you ask us and we agree to produce our working papers or our personnel as witnesses, you will reimburse us for our professional time and expenses, including legal costs. This clause will not apply (i) if you bring legal proceedings against us in relation to the services; or (ii) to a UK regulatory inspection or investigation of PwC.

Clause 10.5 - Parent entity auditors: Where we are auditors of a component, we have a professional responsibility to cooperate with your parent entity’s auditors and to provide them information and explanations as they may reasonably require for their audit. This could include our giving them access to our working papers and discussing relevant matters with them.

Clause 11.4 - Restrictions on employment: Independence rules impose restrictions on audit team members subsequently being employed by an audit client. You should be aware that employing an audit team member within a period of two years from the date of our auditors’ report, dependent upon their role and responsibilities, may represent a threat to our independence that is so significant that we may be required to resign our audit appointment. If you are considering employing an audit team member please request them to consult with our internal independence team to ascertain whether there are any restrictions arising from their role and responsibilities.

Clause 11.5 - Independence rules: Nothing in the agreement applies to the extent that it is prohibited by applicable independence rules.

Agreed amendments to the terms of business based on our engagement letter for the 2015/16 audit:

Clause 4.5 is amended to read: “We may invoice you on a monthly basis. All invoices are payable 30 days after the date on the invoice. If you do not pay an invoice within 30 days of the date of the invoice, we may charge you interest at the rate set by law.”

The definition of ‘confidential information’ in Clause 5 is defined as follows: “**Confidential information** means any information, however it is conveyed, that relates to the business, affairs, developments, trade secrets, know-how, personnel and contractors of either party, including IPRs, together with information derived from the above, and any other information clearly designated as being confidential (whether or not it is marked as “confidential”) or which ought reasonably to be considered to be confidential

Clause 10.1 is amended to read: “We may retain copies of all materials relevant to the services, including any materials given to us by you or on your behalf. All such materials retained by us will be treated as confidential information in accordance with clause 5.1.”

Clause 12.3 does not apply. Claims are dealt with in accordance with the Limitation Act 1980.



Appendix 2: Engagement letter (continued)

Clause 13.1 is amended to read: “Neither party shall be liable in respect of any breach of the agreement due to any cause beyond its reasonable control (a “Force Majeure Event”) including, but not limited to, Act of God, flood, lightning or fire; industrial action or lockouts; pandemic; the act or omission of Government, highway authorities or other competent authority; war, military operations or riot. A party affected by a Force Majeure Event shall inform the other party as soon as practicably possible of the circumstances involved and the likely timeframe for resolution. Should the Force Majeure Event not be resolved within thirty (30) days of notification, the other party shall be entitled to terminate the contract by notice in writing.”

Clause 13.4 is amended to read: “No party may transfer or deal with their rights or obligations under the agreement without prior written consent. Prior written consent will also be required should either party wish to novate the agreement to another transferee. In the event that consent is provided by you to novate the agreement, the novation will take effect on written notice from us so that (i) the transferee will be substituted for us with effect from the date specified in the notice and we will no longer have any rights and obligations under the agreement except in respect of the work performed prior to that date and (ii) the combined aggregate liability of us and the transferee will not exceed the limit of liability before the novation took place. We may also transfer or deal with our rights in any unpaid invoice without notice.”

The following additional clauses shall be added to the terms of business based on our engagement letter for the 2015/16 audit:

8.7 We agree to insure against death of or injury to persons arising directly out of this agreement pursuant thereto and against all actions, claims, demands, costs, charges and expenses in respect thereof.

8.8 In addition to the above indemnities and any insurance required by law, we shall maintain insurance in respect of the services as follows:

8.81 Public/third party liability insurance of no less than £10 million (ten million pounds) in value in respect of any single claim or series of claims made in respect of any incident.

8.82 Employers liability insurance of no less than £5 million (five million pounds) in value in respect of any single claim or series of claims made in respect of any incident.

8.83 Professional indemnity insurance of no less than £2 million (two million pounds) in value for any one occurrence.

8.9 We will supply to you on request confirmation from our insurers that cover is in place.

13.9 We acknowledge that you are subject to the powers of the Local Government Ombudsman (the “Ombudsman”) and have obligations under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. We shall therefore comply with all requests made by you necessary (including but not limited to providing requested documentation and making staff available to be interviewed) to allow you to meet your legal obligations.

13.10 You may terminate this agreement and recover all your losses from us if we, our employees or anyone acting on our behalf do any of the following things:

13.10.1 Offer, give or agree to give to anyone any personal inducement or reward in respect of this or any other your agreements (even if we do not know what has been done); or

13.10.2 Commit an offence under the Bribery Act 2010 or Section 117(2) of the Local Government Act 1972; or

13.10.3 Commit any fraud in connection with this or any other of your agreements whether alone or in conjunction with your members, contractors or employees.

Any clause limiting our liability shall not apply to this clause.

ESPO - Audit strategy memorandum

PwC



Appendix 2: Engagement letter (continued)

Additional provisions

Accessing our systems

You agree that our partners and employees may access our network via your internet connection using our computers. We each accept the risks and neither of us will have any liability whatsoever to the other in this regard.

Confirmation of agreement

Please confirm your acceptance of the agreement by signing the enclosed copy and returning it to us. If you wish to discuss the terms of our appointment further before replying, please let us know.

It is recommended that the agreement is read by those charged with governance to assist their understanding of the auditors' responsibilities, required communications made by and to the auditors and the scope of the audit.

Yours faithfully

Alison Breadon

For and on behalf of PricewaterhouseCoopers LLP

Copy letter to be returned to PricewaterhouseCoopers LLP

I accept the terms of the agreement and confirm that I am authorised to sign for and on behalf of Eastern Shires Purchasing Organisation.

.....
Signed

.....
Name and Position *Clive P.H. AD Finance*

.....
Date *14/2/17*

Appendix 2: Engagement letter (continued)



Schedule 1 – Provision of audit services relating to your non-statutory financial statements

This schedule sets out the scope of the specific audit services that we will provide under our engagement letter dated 14 February 2017. Any terms contained within this schedule apply only to the services specified in this schedule.

Scope of our audit

We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (“APB”) (“ISAs (UK&I)”) and ethical requirements. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In making our risk assessments, we consider internal control relevant to the company’s preparation of the financial statements in order to design audit procedures that are appropriate to the circumstances. We will not consider the company’s internal control for the purpose of expressing an opinion on its effectiveness.

For the avoidance of doubt, we will not assess or otherwise report in connection with other aspects of reporting, as previously required by the Audit Commission, such as reporting on arrangements for securing economy, efficiency and effectiveness in the use of resources.

Internal audit

In developing our audit plan, we will liaise with your internal auditors as appropriate to ensure that our work is properly coordinated with their work. While we will use your internal auditors’ work whenever possible, ISA (UK&I) 610 ‘Using the work of internal auditors’ states that we are solely responsible for the audit opinions expressed and our responsibility is not reduced by our use of the internal auditors’ work.

In assessing the extent to which we can use your internal auditors’ work we will evaluate its adequacy for the external audit process in accordance with ISA (UK&I) 610. We will assess the procedures performed and related documentation for compliance with ISAs (UK&I) and will be required to evaluate and perform audit procedures on selected internal audit work.

Detection of fraud, error and non-compliance

As set out in Appendix 1 of ISA (UK&I) 210 ‘Agreeing the terms of audit engagements’, because of the inherent limitations of an audit and internal control there is an unavoidable risk that some material misstatements in the financial statements (including those resulting from fraud, error or non-compliance with law or regulations) may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK&I).

Appendix 2: Engagement letter (continued)



Preparation of financial statements

These services do not include assistance with the preparation of your financial statements, but we shall discuss the company's accounting policies with you, particularly in any problem areas, and we may propose adjusting entries for your consideration.

Assets owned by third parties

Our audit procedures will not normally extend to assets or documents of title in respect of assets that are in your possession but owned by others.

Auditors' report

Our professional responsibilities

We will report to the directors on the truth and fairness of the company's state of affairs and profit or loss and, when applicable, the cash flows, in accordance with IFRSs as adopted by the European Union.

Additional responsibilities in respect of the financial statements

We may also be required by ISAs (UK&I) to report other matters in our auditors' report; for example, if the other information that, in our judgment, is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

Form and content of our auditors' report

We refer you to the attached draft report for the expected form and content of our auditors' report. The form and content may need to be amended in the light of our audit findings.

Purpose of our auditors' report

Our auditors' report, including our opinions, will be addressed to and prepared solely for the benefit of the directors as a body, for the purpose, and is not for the use or benefit of any other party. We will not in giving our audit opinions, accept liability or assume responsibility for any other purpose or to any other person who receives our report.

Appendix 2: Engagement letter (continued)



Communications with those charged with governance

Our audit is not designed to identify all deficiencies in the company's accounting and internal control systems but we shall report to those charged with governance, in writing, significant deficiencies in internal control identified during the audit that we consider should be brought to their attention.

We shall also communicate to those charged with governance significant findings arising from our audit as appropriate.

Our report(s) on these matters must not be provided to anyone else without our prior written consent, which will be granted only on the basis that such report(s) are not prepared with the interests of anyone other than the company in mind and that we accept no duty or responsibility to anyone else.

Your responsibilities

As directors, you understand and acknowledge your responsibility for:

- safeguarding the assets of the company and preventing and detecting fraud, error and non-compliance with law or regulations;
- ensuring that the company maintains accounting records which disclose with reasonable accuracy, at any time, its financial position;
- such internal control as you determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- preparing financial statements which give a true and fair view of the company's state of affairs and profit or loss and, when applicable, the cash flows, in accordance with IFRSs as adopted by the European Union.

You also understand and acknowledge your responsibility for providing us with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as accounting records, and all other relevant records and documentation (including minutes of all directors, management and members' meetings);
- additional information that we may request from you for the purpose of the audit; and
- unrestricted access to persons within the company from whom we determine it necessary to obtain audit evidence.

You are solely responsible for determining whether the basis of preparation of the financial statements is appropriate for the purpose stated above. We will not comment on or otherwise consider the appropriateness of the basis of preparation.

In order to evidence that you formally take responsibility for and approve the financial statements you will either include a separate directors' statement to that effect or sign the financial statements, before we sign our auditors' report.

Appendix 2: Engagement letter (continued)



Management representations

The information used to prepare the financial statements will invariably include facts or judgements which are not themselves recorded in the accounting records. As part of our normal audit procedures we shall request those charged with governance to provide written confirmation of such facts or judgements and any other oral representations that we have received during the audit about matters materially affecting the financial statements.

We will also ask them to confirm in that letter that all important and relevant information has been brought to our attention.

We shall provide those charged with governance a schedule of any uncorrected misstatements that have come to our attention during our audit. If they decide not to adjust the financial statements for these misstatements, we shall request a written representation from both management and the directors stating their reasons for not correcting the misstatements and that they believe the effects of these uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole.

In connection with representations and the supply of information to us generally, you agree to include within the financial statements a statement to the effect that, in the case of each of the persons who are directors at the time when the directors' statement is approved:

- so far as the director is aware, there is no relevant audit information of which we are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that we are aware of that information.

Other requirements of the directors

Surrounding information

To help us check the consistency of documents or statements to be issued with the financial statements with those financial statements and the knowledge acquired from our audit, you agree to provide us with all such documents or statements in a timely manner.

Subsequent events

Once we have issued our auditors' report we have no further obligation to perform any audit procedures in relation to the financial statements for that financial year. However, in accordance with ISA (UK&I) 560 'Subsequent events', if afterwards we become aware of a fact that may have caused us to amend our auditors' report had we known it before we signed it, we shall discuss the matter with management and consider whether the financial statements need revision. We expect that you will inform us of any material event occurring after the date of our auditors' report which may affect the financial statements.

Appendix 2: Engagement letter (continued)



Foreign regulations

If a company offers its securities or provides financial information to a regulator or government in a country outside the UK, regulations in that country may require that company's auditors to be registered locally. Not complying with these regulations can have severe consequences for both you and us. Accordingly, you agree to notify us of

- any existing or planned offering of securities outside the UK; and
- any provision or intention to provide audited financial statements to a regulator or government outside the UK in connection with your access to the capital markets of a country outside the UK, regardless of whether you include our auditors' report or refer to us or our report.

Independence

Compliance with the auditor independence rules is a shared responsibility between a company and its independent auditor. Because the independence rules encompass not only the company but also its subsidiaries, joint ventures and associates (as defined in IFRSs as adopted by the European Union/UK GAAP), you agree to inform Alison Breadon periodically about the identity of each subsidiary, joint venture and associate and will notify Alison Breadon in advance regarding any expected changes to them, including, but not limited to, changes in ownership or control and new acquisitions or significant investments. You acknowledge that we will use this information confidentially to assess and/or reassess independence.



Appendix 2: Engagement letter (continued)

Proposed form of auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE EASTERN SHIRES PURCHASING ORGANISATION MANAGEMENT COMMITTEE

We have audited the non-statutory financial statements of Eastern Shires Purchasing Organisation for the year ended 31 March 2017 which comprise the Balance Sheet, the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, the Movement in Reserves Statement and the related notes. The financial reporting framework that has been applied in the preparation of these non-statutory financial statements is the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Respective responsibilities of the Consortium Treasurer and auditors

As explained more fully in the Consortium Treasurer's Responsibilities and the Eastern Shires Purchasing Organisation Consortium's Responsibilities [set out on pages...], the Consortium Treasurer is responsible for the preparation of the non-statutory financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the non-statutory financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members for management purposes in accordance with our engagement letter dated 14 February 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the organisation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited non-statutory financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory financial statements

In our opinion the non-statutory financial statements:

- give a true and fair view of the state of the organisation's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This document has been prepared only for Eastern Shires Purchasing Organisation and solely for the purpose and on the terms agreed with Eastern Shires Purchasing Organisation in our agreement dated 14 February 2017. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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