

**MANAGEMENT COMMITTEE – 15 SEPTEMBER 2021**  
**EXTERNAL AUDIT OF THE 2019/20 FINANCIAL STATEMENTS**  
**JOINT REPORT OF THE DIRECTOR AND CONSORTIUM TREASURER**

**Purpose of Report**

1. To report the key findings from the external audit of the 2019/20 financial statements and to present the letter of representation from the Consortium Treasurer to the auditors

**Background**

2. Most local government and private companies (or a certain size) are required by law to have an annual audit by external chartered accountants. The auditors will normally confirm that the information in the financial statements give a 'true and fair' view and are not materially wrong, and/or they may draw attention to anything in the financial statements that they are required to.
3. ESPO, as a joint committee set up under Section 102 of the 1972 Local Government Act, is not legally required to have an audit. However, there are significant benefits to undertaking one as it gives a level of independent assurance to various stakeholders (the public, Management Committee, HMRC, banks, staff etc) over our financial statements and it supports our wider governance arrangements.
4. Grant Thornton (GT) are ESPO's auditors and 2019/20 was their first year, having replaced PWC. A copy of the auditor's report is attached as Appendix 1 to this report.
5. As set out in the report, GT propose to certify the 2019/20 financial statements with a 'qualified' opinion. (Normally you would want an 'unqualified' opinion). The problem is that due to the national lockdown arising from the Covid-19 pandemic GT were unable to observe the March 2020 stocktake (the process where EPSO staff count all of the stock in the warehouse). This was agreed with ESPO in the interest of safety of colleagues in both teams amidst the significant uncertainty over the pandemic at that time. As such, GT were unable to obtain sufficient evidence over the stock figure we include in our financial statements. A qualified opinion due to Covid-19 was not uncommon for businesses with significant stockholdings. Except for this issue, GT are of the opinion that the financial statements give a true and fair view.
6. GT not attending the March 2020 stocktake will result in the 2020/21 and the 2021/22 financial statements also having the same qualified opinion as these also rely on March 2020 stocktake.

7. Appendix 1 includes a small number of recommendations/observations. These include:
  - a. Gas revenue being recognised one month in arrears. This is a convenient and efficient process for the business and our customers but from an accounting perspective it technically should not be recognised in arrears. However, ESPO has always recognised 12 months of revenue (just the 12 months March to February rather than April to March) and as the auditors agree that the impact is not material to the financial statements this is not going to be changed prospectively.
  - b. Some improvements to reduce the risk of management override of controls. These will be acted upon.
8. Included in Appendix 2 is the draft letter of representation from the Consortium Treasurer which is required by the auditors before issuing their formal audit opinion.
9. For completeness, appendices 3 and 4 contain details of the audit plan and the risk assessment undertaken by GT.
10. The GT auditor responsible for the audit will attend the Committee meeting on the 15 September to communicate any significant findings and answer any questions.
11. The 2019/20 financial statements are presented to the September Committee meeting for approval elsewhere on the agenda for this meeting.

### **Recommendation**

12. The Committee is asked to consider and approve the external audit of the financial statements 2019/20.

### **Equal Opportunities Implications**

13. None

### **Officer to Contact**

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### **Appendices**

Appendix 1 – The audit findings for ESPO - Report to those charged with governance on the audit for the year ended 31 March 2020 (ISA 260 (UK&I))

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

Appendix 3 – The audit plan for ESPO for the year ended 31 March 2020

Appendix 4 – Informing the audit risk assessment for the year ended 31 March 2020

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