



# The Audit Findings for Eastern Shires Purchasing Organisation

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

---

**Year ended 31 March 2021**

***10 June 2022***

**Avtar Sohal**  
Director  
T 07825 112538  
E [avtar.s.sohal@uk.gt.com](mailto:avtar.s.sohal@uk.gt.com)

**Andy Reid**  
Senior Audit Manager  
T 07901 706575  
E [andy.s.reid@uk.gt.com](mailto:andy.s.reid@uk.gt.com)



# Grant Thornton at a glance

## Grant Thornton International Ltd

- Fee income \$5 billion
- Over 135 countries
- Over 55,000 people
- Global methodologies, strategy, global brand, global values – consistent global service



FTSE 100 are non-audit clients

**51%**



People worldwide

**58,000**



Independent nominated advisor of AiM

**No.1**

UK offices (+ Cayman and British Virgin Islands)

**27**



Largest auditor, UK's top privately-held companies

**6th**



Member firms of Grant Thornton International Ltd

**135**



### Americas

- Fee income \$2.6 billion
- Over 36 countries, presence in all major financial and economic centres
- Over 17,000 people, including partners

### Europe, Middle East and Africa

- Fee income \$2.1 billion
- Over 82 countries, presence in all major financial and economic centres
- Over 22,000 people, including partners

### Asia Pacific

- Fee income \$1 billion
- Presence in over 18 countries, in all major financial and economic centres
- Over 18,000 people, including partners

12

**Private and Confidential**

Members of the Management Committee  
Eastern Shires Purchasing Organisation  
Barnsdale Way  
Grove Park  
Leicester  
LE19 1ES

**Grant Thornton UK LLP**  
17<sup>th</sup> Floor  
103 Colmore Row  
Birmingham  
B3 3AG

T 0121 212 4000  
[www.grantthornton.co.uk](http://www.grantthornton.co.uk)

Dear Sirs

**Audit Findings for Eastern Shires Purchasing Organisation for the year ended 31 March 2021**

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [www.grantthornton.co.uk/en/about-us/leadership-and-governance/transparency-report/](http://www.grantthornton.co.uk/en/about-us/leadership-and-governance/transparency-report/)

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Avtar Sohal  
Director  
For Grant Thornton UK LLP

**Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

# Contents

Section	Page	Appendices	Page
1. Status of the audit	5	A. Financial Reporting Council's (FRC) quality inspection results	16
2. Our approach to materiality	6		
3. Observations in respect of significant risks	7		
4. Other findings – accounting policies	9		
5. Other communication requirements	10		
6. Adjusted misstatements	11		
7. Unadjusted misstatements	12		
8. Independence and ethics	13		
9. Communication of audit matters with those charged with governance	14		

# Status of the audit

**Our work is substantially complete. As for 2019/20 we will issue a limitation of scope in the audit opinion in relation to assurances over the quantity of inventories held at 31 March 2020.**

Due to the national lockdown arising from the Covid-19 pandemic we did not observe the counting of physical inventories at the 31 March 2020, and so were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities held at this date. As reported to you last year, this led to us issuing a limitation of scope in our 2019/20 audit opinion.

For the 2020/21 financial year this further meant that we do not have sufficient appropriate audit evidence regarding the opening inventory quantities held at 31 March 2020, which impacts on the results reported in the 2020/21 financial statements. Consequently we will also need to issue a limitation of scope in our 2020/21 audit opinion.

However, this is not unusual for any audits for which auditors were unable to attend stock takes at March 2020 due to the national lockdown. We did attend stock takes at 31 March 2021 with no issues and so going forward this issue has been addressed.

From the testing carried out on all other areas, we are satisfied that the financial statements are free from material misstatement.

In other respects our work is complete other than:

- Final post balance sheet event review
- Receipt of the Letter of Representation.

We anticipate all these areas will be cleared ahead of the Management Committee meeting on 28 June 2022.

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We detail in the table below our determination of materiality for ESPO.

	ESPO Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,589,000	We determined materiality for the audit of ESPO's financial statements as a whole to be £1,589,000, which is approximately 2% of ESPO's total income. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in the levels of income available to ESPO to expend in furtherance of its objectives.
Performance materiality	1,112,000	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 70% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> <li>• We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment</li> <li>• There has however, been some adjustments to the financial statements in the prior year, which has reduced the threshold that we might otherwise have applied.</li> </ul>
Trivial matters	80,000	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £80,000, which is 5% of materiality.

# Observations in respect of significant risks

## Risks identified in our Audit Plan

## Commentary

**1**

### Improper revenue recognition

- Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue

### Auditor commentary

We have:

- evaluated the Joint Committee's accounting policy for recognition of Invoiced Turnover for appropriateness;
- gain an understanding of the Joint Committee's system for accounting for income, evaluate the design of the associated controls and observe them in operation;
- Tested any manual adjustments made to revenue recorded
- Undertaken a predictive analytical review of revenue recorded based on prior and current year margins
- Agree, on a sample basis amounts recognised as income in the financial statements to ensure that accurately accounted for in line with accounting policies, that income is appropriately recognised and that there is appropriate evidence of receipt of funds.

No issues arose which we need to bring to your attention.

**2**

### Management override of controls

- Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

No issues arose which we need to bring to your attention.

17

## Observations in respect of significant risks (continued)

### Risks identified in our Audit Plan

### Commentary

**3**

#### Valuation of the net pension fund liability

- The Joint Committee's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.
- The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£27 million in the Joint Committee's balance sheet at 31 March 2021, increased from £16.6m at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions.

#### Auditor commentary

We have:




- updated our understanding of the processes and controls put in place by management to ensure that the Joint Committee's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Joint Committee's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Joint Committee to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- Reviewed key movements in the asset and liability figures in 2020/21 and sought supporting evidence and explanations.

No issues arose which we need to bring to your attention.




**18**



## Other findings – accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Revenue from the sales of goods is recognised when ESPO satisfies the performance obligation to its customers on delivery and it is likely that economic benefits associated with the transaction will flow to ESPO. ESPO has standard payment terms agreed with its customers.</p> <p>Revenue from the provision of services is recognised when ESPO can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to ESPO.</p> <p>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.</p>	<p>We have considered the:</p> <ul style="list-style-type: none"> <li>• Appropriateness of the accounting policy under relevant accounting framework</li> <li>• Adequacy of disclosure of each accounting policy</li> </ul> <p>We are satisfied that the application of revenue recognition is consistent with the disclosed policies.</p> <p>We have noted that ESPO do not accrue for gas revenue based on the financial period of 1<sup>st</sup> April 2020 to 31 March 2021, but have charged the 12 months of revenue from 1 March 2020 to 28 February 21, we are satisfied that this will not result in a material misstatement as 12 months of revenue is charged each year.</p>	<p><b>Green</b></p> 
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>• Valuation of property plant and equipment</li> <li>• Pension liability</li> </ul>	<p>We have considered the:</p> <ul style="list-style-type: none"> <li>• Appropriateness of policy under relevant accounting framework</li> <li>• Extent of judgement involved</li> <li>• Potential financial statement impact of different assumptions</li> <li>• Adequacy of disclosure of accounting policy</li> </ul> <p>We noted that ESPO do not depreciate buildings as they are revalued on an annual basis. We consider that under FRS 102 depreciation should still be applied to buildings even where they are revalued, and have noted this as an uncorrected misstatement on page 12. This would have no impact on total comprehensive income.</p>	<p><b>Green</b></p> 
<b>Other accounting policies</b>	<p>Policies have been disclosed within Note 3 of the financial statements.</p>	<p>We have reviewed ESPO's policies against the requirements of UK GAAP FRS102 and have concluded that they are appropriate an in line with their requirements.</p>	<p><b>Green</b></p> 

**Assessment**

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# Other communication requirements

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"><li>We have not been made aware of any instances of frauds but we would ask the Management Committee to notify us if they are aware of any such incidences.</li></ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"><li>We are not aware of any related parties or related party transactions which have not been disclosed.</li></ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"><li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li></ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"><li>A letter of representation has been requested from ESPO.</li></ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"><li>We requested from management permission to send confirmation requests to those organisations with which it banks. Permission was granted and positive confirmations have been received for the requests sent.</li></ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"><li>No significant disclosure amendments have been made to the financial statements. A small number of minor amendments were made to improve clarity for the reader.</li></ul>
7	<b>Audit evidence and explanations</b>	<ul style="list-style-type: none"><li>All audit evidence has been obtained and sufficient explanations received where required.</li></ul>
8	<b>Internal control</b>	<ul style="list-style-type: none"><li>No internal control issues have been identified in our audit work which we wish to bring to your attention.</li></ul>
9	<b>Other information</b>	<ul style="list-style-type: none"><li>We are required to give an opinion on whether the other information published together with the audited financial statements is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.</li></ul>

# Adjusted misstatements

Detail	Income Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Reclassification of interest costs from admin expenses	Dr expenditure – interest costs – 103 Cr expenditure – admin expenses - 103	nil	The error value is not material and has no impact on net assets or total comprehensive income.
<b>Overall impact to 20/21</b>	<b>Nil</b>	<b>nil</b>	

21

Disclosure adjustments	Detail of amendment made
<b>Related parties</b>	Updated to correct presentational errors regarding year end balances with Norfolk County Council and Cambridgeshire County Council.
<b>Audit fees</b>	Amendment to correct figure disclosed

## Unadjusted misstatements

Detail	Income Statement £'000	Balance Sheet £' 000	Reason for not adjusting
Application of depreciation to revalued buildings	Dr expenditure – depreciation – 155 Cr revaluation movement - 155	nil	The error value is not material and has no impact on net assets or total comprehensive income.
<b>Overall impact to 20/21</b>	<b>Nil</b>	<b>nil</b>	

## Impact of unadjusted misstatements in the prior year

Prior year unadjusted misstatements related to a cut off issue between 2018/19 and 2019/20, and so would have no impact on the 2020/21 financial statements.

# Independence and ethics

## Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, and managers). In this context, we disclose the following to you:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view apart from the matters detailed below. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- As a firm we have been awarded some audit work for other bodies based on ESPO framework contracts where we have to pay a levy. The total levies paid to ESPO in the period 1 January 2021 to 31 December 2021 was £6,450.01. We do not deem these amounts to be material to either the firm or ESPO, and we do not deem the use of these framework contracts to impact our independence to deliver the external audit for ESPO.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to ESPO. No non-audit services were identified.

# Fees

We confirm below our final fees charged for the audit..

	2020/21 Planned fee	2020/21 Final fee
<b>ESPO Audit fee 2020/21</b>	£32,000	£32,000
<b>Total audit fees (excluding VAT)</b>	<b>£32,000</b>	<b>£32,000</b>

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

# Appendices

# Significant improvements from the Financial Reporting Council's (FRC) quality inspection

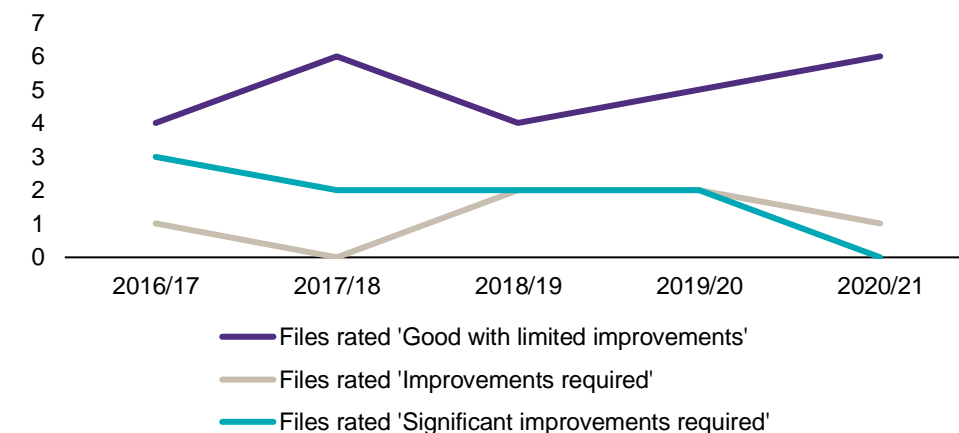
## What has the FRC said about us?

- The FRC has published the findings of its annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continual improvement in audit quality.
- All of the major audit firms go through an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.
- Two years ago we implemented our Audit Investment Plan (AIP), which sets out measures to enhance governance of the audit practice. These measures include:
  - establishing an Audit Quality Board to hold the firm's leadership accountable on audit quality matters. This Board includes, amongst others, Fiona Baldwin, Head of Audit and Philip Johnson as Independent Chair
  - commissioning an independent review of our audit function. The review scrutinised our audit approach and made recommendations for further change and improvement, which we have integrated into our audit strategy
  - addressing the issues raised by the FRC through performing root cause analysis and using the results of that analysis to implement updated policies and procedures.

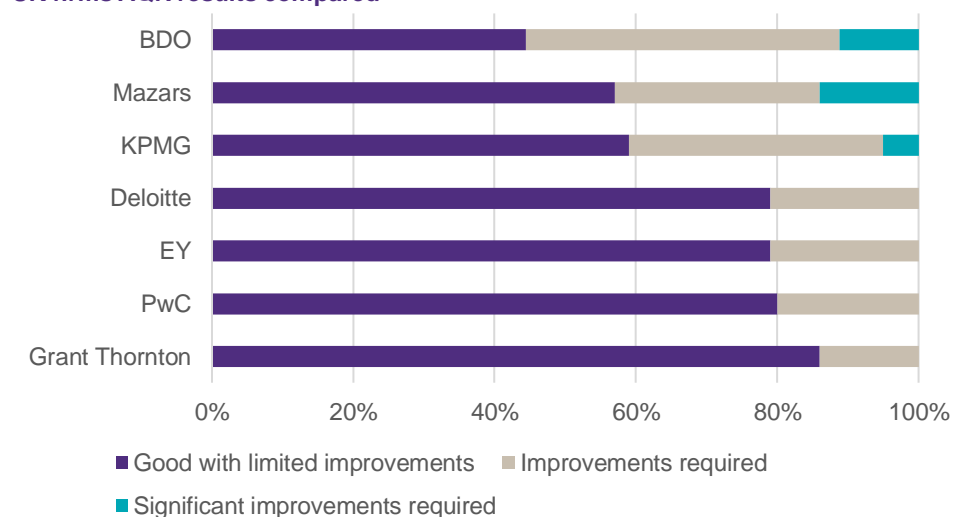
## Our results

- The results of the FRC's reviews of our commercial audits have improved as have the reviews performed in the year by the ICAEW. No files have been graded as requiring significant improvement by the FRC. This is encouraging progress following the implementation of the AIP. The success of the changes made to our approach under the AIP is demonstrated by the improvement of the AQR results, as illustrated in the graphs opposite.

Grant Thornton UK AQR results



UK firms AQR results compared



26



# Significant improvements from the Financial Reporting Council's (FRC) quality inspection (continued)

## Continued commitment to audit quality

- We remain fully committed to improving audit quality and we will continue to:
  - challenge management in areas that are complex, significant or highly judgmental, for example, certain accounting estimates, going concern evaluations, revenue recognition and other such areas
  - invest in technology to produce high quality audits more efficiently through a suite of technology solutions
  - plan for a smooth audit that is delivered to an appropriate timetable to achieve a high quality audit
  - work proactively with you to address matters identified during the course of the audit and, where appropriate, will seek to bring forward work to earlier in the year, particularly on complex areas such as acquisitions etc
- In conjunction with our implementation of the new standards on quality management, we intend to expand and develop our root cause analyses and will be implementing necessary responses as part of our commitment to continual improvement.



© 2021 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.