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ESPO

Audit Findings Report for Eastern Shires Purchasing Organisation

Year ended 31st March 2025

Issued 19th September 2025

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Transmittal Letter

The Board of Directors
Eastern Shires Purchasing Organisation
Barnsdale Way
Grove Park, Enderby
Leicester
LE19 1ES

11th September 2025

Dear Sirs/Madam

Audit Findings for Eastern Shires Purchasing Organisation for the year ending 31st March 2025

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, 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.

Transmittal Letter (Continued)

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.

Yours faithfully

Tor Stringfellow FCA
Audit Partner

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Audit Status

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Likely to result in a material adjustment or significant change to disclosures within the financial statements:

- **There are no outstanding matters within this category**

Potential to result in material adjustments or significant change to disclosures within the financial statements:

- **There are no outstanding matters within this category**

Not considered likely to result in material adjustment, change in the net surplus/deficit or change to disclosures within the financial statements:

- **Discussions on going concern at completion**

Our anticipated audit report will be unmodified

Detailed Audit Findings

Trade debtors

When reviewing JBA Debtors we found that for the sample of customers picked for testing there were some that related to multiple individual schools within a trust and would, therefore, have multiple different lines of invoices. Whilst this made it difficult to trace the remittances post year-end to the individual lines of invoices, we were able to confirm receipts post year-end to the outstanding invoices at the year end with remaining unmatched amounts of £46k of sampled balances of £783k.

The total extrapolated error based on these unmatched amounts was calculated at £339,730 which was immaterial and so no further work was undertaken. We note that the unmatched amounts are not necessarily unpaid but that this is a worst-case variance based on the work we completed.

Trade creditors

On review of the trade creditors, we found one supplier (Total Gas & Power – balance £4,676k) for whom invoices are issued by the 50
supplier once a month in EDI files which would get posted in S21 but there could be a delay in when the payment would actually be made. Therefore, when looking at the payments made post year end, we found 3 payments totaling £4,659k (which covers the balance) but only £4,412k of the payments were matched to invoices that related to pre-March 2025. This leaves an amount of £264k and an extrapolated potential variance of £391,144 which is immaterial with no further work required. Again, we note that this does not necessarily indicate the amounts are unpaid or invalid but is a worst-case calculation based on our work.

Stock

On review of the Stock valuation testing we picked the sheet to floor sample carried out at the stock take at year-end. We obtained the last purchase invoice in the year to calculate the unit cost for those goods. ESPO have 2 ways in which they buy stock – one is by case price, and the other is by individual unit price, this depends on how ESPO sell the stock, whether this is by unit or as a pack. Factoring this into the recalculation of the unit cost of stock left us with only minor variances of £4k on our sampled stock lines of £788k, resulting in an immaterial extrapolated error of £55,692.

Detailed Audit Findings (Continued)

Accruals

The only potential adjustment noted in respect of accruals relates to our audit fee (£35k + vat) which should be included in the current period (to which it relates) – we have included this as an actual adjustment to be made in the accounts.

Depreciation

When reviewing depreciation calculations, we noted that two items tested had been depreciated over 8 months rather than 7. The total misstatement was £1.5k and when extrapolated the potential variance is only £19,269.

Sales Cut off

When reviewing post year end cut off, we found 4 invoices that related to March 2025 but had been posted in April 2025. Therefore, we should expect this to be included in the Gas adjustments accrual as all gas invoices are invoiced in arrears. This creates a potential adjustment of £313k

Financial statements

See review of the Financial statements document for amendments that should be made in the financial statements based upon our review of the disclosures – these have been factored into the most recent version of the accounts and we are satisfied that the accounts disclosures are compliant with the relevant accounting standards.

Detailed Audit Findings (Continued)

Review of control environment

Whilst our audit work is not designed to identify all the weaknesses in controls, we highlight any potential improvements noted during the course of our work herein:

	Control risks	Recommendations
1	**Physical Documentation around payroll** During our payroll testing we noted that contracts were not signed by the employee or the employers. Whilst we understand pay bandings are in place, however any changes to salaries or contracts terms should be reflected in writing and signed by both parties.	**Recommendation** We would recommend that upon onboarding a process of contract signing is put in place to ensure all contracts are signed by both parties. Alongside this any amendments to contract terms should be signed by both parties also. **Client response and implementation responsibility** • ESPO will be resetting the service level agreement (SLA) with our partner East Midlands Shared Services in 25/26. The original service level agreement is dated and does not adequately cover contract services required, and document management of contracts. The new SLA will incorporate these elements and set KPIs to ensure performance against these services. ESPO will also look to review and update the onboarding process to ensure tighter controls are in place for returning contracts. • Implementation Responsibility – Commercial Financial Controller

Detailed Audit Findings (Continued)

Review of control environment

Whilst our audit work is not designed to identify all the weaknesses in controls, we highlight any potential improvements noted during the course of our work herein:

	Control risks	Recommendations
2	**Credit note Approvals** During our purchase cut off testing we found a potential prepayment that should have been made, however when querying this with the client we found that 2 credit notes had been issued as this invoice was incorrect. When reviewing these credit notes we saw that these hadn't been physically or by email been approved, this invoice was of £500k which is a large amount.	**Recommendation** We would recommend that the 2 step approvals are tight, no approvals should be done verbally as this leaves no audit trail. If staff are unsure, they should ask the appropriate personal for clarity. **Client response and implementation responsibility** • ESPO will review, test, redesign and implement the credit note adjustment process. ESPO is engaging its ERP system partner to review key finance system procedures in 25/26 ensuring they are robust, best practice and implemented as intended. • Implementation Responsibility – Commercial Financial Controller

Detailed Audit Findings (Continued)

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Review of control environment

Whilst our audit work is not designed to identify all the weaknesses in controls, we highlight any potential improvements noted during the course of our work herein:

	Control risks	Recommendations
3	**Rebate Testing** From our review of the Rebate testing, we found that the basis on the rebate income recognition is based on honesty provided by the supplier to ESPO. We understand that contractually the supplier has an obligation to truthfully pass forward the owed income to ESPO however with this there is a risk to manage income leakages. It was noted that ESPO has implemented the use of a data specialist, *Tussell*, to gain visibility of captured public sector spend. This tool allows ESPO to cross-reference published spend data with management information reports provided by suppliers. In 2022/23, this initiative identified discrepancies that led to an additional rebate income of £130k.	**Recommendation** While the implementation of *Tussell* has already yielded positive financial results, the process is reliant on the accuracy and timeliness of both supplier reports and external spend data. Any delay or inaccuracy in supplier data submissions could lead to missed opportunities for further rebate recovery or risk of non-compliance with financial monitoring expectations. **We recommend that ESPO further strengthen the existing process by:** • Formalising a protocol for regular reconciliation of supplier data with Tussell insights, including clearly defined timelines and escalation procedures. • Enhancing supplier engagement through regular communication and training on data submission expectations and the importance of timely, accurate reporting. • Conducting periodic reviews of the Tussell integration process to identify any limitations or opportunities for automation and efficiency improvements. • Documenting discrepancy resolutions for audit trail purposes and to support future negotiations or disputes. **Client response and implementation responsibility on next page**

Detailed Audit Findings (Continued)

Review of control environment

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Significant Risks Responses

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	Risks identified in our audit plan	Audit Findings
1	**Revenue recognition** Under ISA240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Reviewed revenue recognition policies to ensure compliance with accounting standards; • Tested for completeness (understatement) of income by tracing sales requisitions and remittances to sales invoices and the income nominals • Tested revenue cut-off to ensure recognised in the correct period as detailed above under accrued and deferred income **Conclusion** From our review of the Framework Revenue, we found that the basis of the rebate income recognition is based on honesty provided by the supplier to ESPO. We understand that contractually the supplier has an obligation to truthfully pass forward the owed income to ESPO however with this there is a risk to manage income leakages.
2	**Management override of controls** Under ISA240 (UK) there is a presumed risk that the risk of management override of controls is present in all entities. Certain balances with the financial statements require significant management judgement and estimation, and as such presented heightened audit risk.	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Review of accounting estimates, judgements and decisions made by management; • Testing of journal entries; and • Review of unusual significant transactions. **Conclusion** No issues have been identified.

Significant Risks Responses (Continued)

	Risks identified in our audit plan	Audit Findings
3	**Accrued Expenses** We note that there are material accruals balances within creditors these are potentially subject to judgement and estimation due to the nature of the balances.	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Obtain listing of accruals and review calculations, confirming a sample to source documents • Analytical review to compare to prior year and ensure reasonable and consistent • Review for completeness by reference to post year-end transactions • Discuss any estimates or judgmental balances with management **Conclusion** From our review, the accruals balances are not materially misstated within the financial statements following adjustment to include the audit fee accrual for the year.
4	**Related Parties – Transactions with Consortium Members**	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Potential direct confirmation from consortium members of transactions / balances • Discussion with management to confirm no other related party relationships • Review transactions for completeness – i.e. any additional transactions misclassified • Confirmation of transactions / balances on letter of representation **Conclusion** Following our review, we have reviewed the disclosures in the financial statements to ensure disclosures are accurate, complete and compliant with FRS 102, no issues were identified in relation to this.

Significant Risks Responses (Continued)

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	Risks identified in our audit plan	Audit Findings
5	**Defined Benefit Pensions Scheme** We note that the organisation is a member of the Local Government Pension Scheme and defined benefit pension scheme accounting / disclosure is a potentially complex area.	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Review disclosures / calculations and confirm to supporting documentation or evidence • Review latest scheme valuation by independent actuary • Confirm contributions in the year to supporting documentation **Conclusion** From our review, we found that the organisation is correctly recognising their employee benefit costs with the guidance from the actuary report from Hymans Robertson.
6	**Stock Valuation** We must confirm that the stock is valued at the lower of cost and NRV in accordance with FRS 102.	**Auditor commentary** We undertook the following audit procedures in line with our audit plan: • Confirmation of cost to purchase invoice pre year-end • Confirmation of NRV to post year-end sales invoice • Review any stock provision for obsolescence • Verify year end stock valuation by carrying out substantive testing **Conclusion** From our review, we found that stock was valued at the lower of cost and NRV in accordance with FRS 102

Final analytical review

Income

Total Turnover in 2025 was £119,104k, which is a £11,734k (9%) decrease than 2024 at £130,838k. The fall is driven largely by the decrease in Gas income, though there were smaller declines across other streams also.

Between 2024 and 2025, turnover decrease was mainly due to halving of Gas income. Core streams (Stores, Rebates) remained stable and continue to underpin performance, while smaller streams offered little offset. The fall should be viewed as a correction from an unusually high 2024, rather than a fundamental downturn—but steps are needed to stabilise volatile and declining income lines.

Revenue Stream Movements

Stores remained stable, continuing to provide the largest and most consistent income stream. **2024: £57,047k → 2025: £56,940k (-0.2% Decrease)**

Direct Orders decline reflects a continuing downward trend, though less steep than the 2023-24 drop. **2024: £19,657k → 2025: £18,717k (-4.8% Decrease)**

Gas primary driver of the overall turnover fall, suggesting 2024's gas income was unusually high and not sustained in 2025. **2024: £41,967k → 2025: £21,978k (-47.6% Decrease)**

Rebate Income is still a strong and stable stream, but the decline shows some pressure, possibly due to supplier contract changes.
2024: £22,229k → 2025: £21,311k (-4.1% Decrease)

Catalogue Advertising is a small income source but trending downwards in its second year. **2024: £699k → 2025: £556k (-20.5% Decrease)**

Expenditure

Distribution Costs

Between 2024 and 2025, distribution costs **fell by £156k**, indicating a reduction in cost pressures. This decline is likely attributable to a combination of:

- **Improved logistics efficiency**
- **Reduced transport and fuel costs**
- **Lower volume of gas-related activity**

This is supported by the significant drop in **Gas revenue**, from **£41.9m** in 2024 to **£21.9m** in 2025. Notably, the reduction in distribution costs was proportionally **much larger** than the overall turnover decline of **9%**, suggesting that **genuine efficiency gains**—rather than merely lower activity—played a substantial role.

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Administrative Expenses

Administrative expenses remained broadly flat year-on-year, increasing by **£1.0m** from **£22.2m in 2024** to **£23.2m in 2025**.

Possible drivers include:

- Tighter overhead management
- Staffing efficiencies
- IT and operational savings

Final analytical review

Fixed assets

In 2024: £24.1m → 2025: £25.4m (£1.3m Increase)
Growth is mainly in Tangible Assets (£25.3m vs £24m), while Intangible Assets are largely flat (£81.7k vs £73.3k).

Current Assets

In 2024: £9.48m → 2025: £9.83m (£0.35m Increase)
Inventories grew slightly (£9.83m vs £9.48m).

Debtors fell from £6.76m to £6.59m, indicating better receivables management.

Cash decreased from £15.46m to £11.97m (-£3.5m, 22% decrease).

Overall, liquidity has weakened due to the cash reduction despite stronger inventory and stable debtors.

Reserves

In 2024: £42.4m → 2025: £42.6m (£0.2m Increase)

Movement in reserves is consistent with the small net asset increase. The retained profit / net asset position remains strong.

Creditors

Creditors in **2024: £11.5m → 2025: £16m (£4.5m Increase)** driven by higher trade creditors (£9.3m vs £7.6m) and accruals (£3.1m vs £2.3m).

Key Insights

Liquidity Concerns – Cash balances fell by £3.5m, while short-term liabilities jumped by £4.5m. Net current assets halved, raising concerns about short-term solvency although the company holds sufficient cash balances of £12m at the year-end.

Stable Asset Base – Fixed assets increased slightly, maintaining a strong long-term investment position.

Leverage – Reliance on creditors (especially trade creditors and accruals) is growing. This may reflect tighter cash management but also increases financial risk.

Overall Net Assets – Remained broadly flat at ~£42.6m, showing stability overall.

Final analytical review – other expenses reconciliation

	£'000	*Commentary*
Expenses per 2024 accounts	**25,048**	
Add/(Less):		
Other expenses	(1,090)	*Various expenses decreased in the year due to general costs savings and cost minimisation.*
Warehouse Extension Project	2,570	*Warehouse Project complected in the year, therefore cost accounted in this year*
Payroll Pension cost	765	*Average number of employees increased meaning more staff costs*
Agency staff, employee costs	(274)	*Reduction in agency staff meaning employee costs have decreased*
Expenses per 2025 accounts	**26,254**	

Other Communication Requirements

	Issue	Commentary
1	Matters in relation to fraud	• We have discussed the risk of fraud with Management and have not been made aware of any issues. We have not been made aware of any incidents in the period nor identified any issues during the course of our audit procedures.
2	Matters in relation to related parties	• We are not aware of any related party transactions which have not already been disclosed.
3	Matters in relation to laws and regulations	• We are not aware of any significant incidents of non-compliance with laws and regulations.
4	Disclosures	• The Financial Statements disclosures are in line with Companies Act 2006 and FRS 102
5	Written Representations	• A letter of representation will be provided by management with the signed Financial Statements and will include the following confirmations: 1) Related parties and transactions therewith; 2) Confirmation of going concern status.
6	Confirmation requests from third parties	• Discussions with Management and a review of professional fees has not identified any legal cases or claims against the organisation. • Bank confirmations to be received from Natwest for cash balances held at the year end.

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Misstatements – Adjusted

Detail	P&L £		Balance sheet £		Profit / (loss) effect £
	Debit	Credit	Debit	Credit	
Profit for the year per DRAFT accounts					8,871,000
Profit as per final audited financial statements					**8,871,000**

Misstatements - Unadjusted

Detail	P&L £		Balance sheet £		Profit / (loss) effect £
	Debit	Credit	Debit	Credit	
Potential Creditors Extrapolations		391,144	391,144		391,144
Potential Extrapolated Trade debtors' adjustment	339,730			339,730	(339,730)
Potential Sales Cut off Error		313,568	313,568		313,568
Total impact of potential adjustments on profit					**364,982**
Total potential unadjusted misstatements are below performance materiality both individually and in aggregate (such that no balance in the accounts is materially misstated) and are, consequently, not adjusted in the final audited financial statements.					

Fees, Non-audit Services and Independence

	Fees (£) Net of VAT	Threat Y/N	Safeguard
Audit of financial statements	29,500	N	N/A
Total	**29,500**		

Independence and Ethical Statement

- We can 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;
- We have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements;
- For the purposes of our audit, we have made enquires of all Williamson & Croft teams providing services to Eastern Shires Purchasing Organisation. We can confirm that there are no non-audit service provided to the organisation.

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.	Yes	
Overview of the planned scope and timings of the audit, form and expected general content of communications.	Yes	
Views about the qualitative aspects of the organisation's accounting and financial reporting practices, significant matters and issues arising during the course of the audit and written representations that have been sought.		Yes
Confirmation of independence and objectivity	Yes	Yes
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 Williamson & Croft Audit Limited and / or Williamson & Croft Accountants Limited and / or any other related party 0 together with fees charged plus where appropriate details of safeguards applied to threats to independence.	Yes	Yes
Material weaknesses in internal controls identified during the course of the audit.		Yes
Identification or suspicion of fraud involving management and / or which results in material misstatement of the financial statements.		Yes
Non-compliance with laws and regulations.		Yes
Expected modifications to the auditor's report or emphasis of matter.		Yes

Communication of Audit Matters with those Charged with Governance (Continued)

Our communication plan	Audit Plan	Audit Findings
Adjusted and Unadjusted misstatements		Yes
Significant matters arising in connection with related parties		Yes
Significant matters in relation to going concern		Yes

- International Standard on Auditing (ISA) (UK) 260, as well as other ISAs, prescribe matters on which we are required to communicate with those charged with governance which we have set out on the table above;
- Whilst we seek to ensure our Audit Findings Report is distributed to those individuals charged with governance, a minimum requirement exists for our findings to be distributed to the management committee and those members of senior management with significant operational, financial and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to those charged with governance; and
- As auditors 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 by governance. The audit of the Financial Statements does not relieve management or those charged with governance of their responsibilities.

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