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*Government and Public Sector*  
***Eastern Shires  
Purchasing  
Organisation***

September 2011

Report to those charged with  
governance (ISA 260 (UK&I)) -  
DRAFT

2010/11 Audit





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

13 September 2011

Ladies and Gentlemen,

We are pleased to enclose our report on our audit of the accounts of Eastern Shires Purchasing Organisation (“the Committee”) for the year ended 31 March 2011.

The scope and focus of our audit work was summarised in our Audit Plan, which was discussed and agreed with you at your meeting in March 2011.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements following your approval of the accounts on 29 September 2011. At the time of writing, the key outstanding matters are:

- receipt of outstanding declarations of interests from members;
- approval of the financial statements by the Management Committee; and
- receipt of all relevant signed statements and the management representation letter.

We look forward to discussing our report with you at your meeting on 29 September 2011.

Yours faithfully

PricewaterhouseCoopers LLP

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## ***Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies***

*In April 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.*



# 1. Executive summary




## The purpose of this report

In accordance with International Auditing Standards we are required to report to you the significant findings from our audit before giving our audit opinion on your accounts.

This report contains the significant matters we wish to report to you arising from all aspects of our audit programme of work. Our audit work during the year was performed in accordance with the Plan that we discussed and agreed with you in March 2011.

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

### Key

-  Red – significant improvements required
-  Amber – some improvements required
-  Green – no or some minor improvements required

## Comments

Quality of accounts and working papers. Readiness for start of audit and availability and responsiveness of staff.



The Committee prepared its accounts on a timely basis with a first draft of the accounts available well in advance of the start of the audit. Working papers were available for audit on time and key staff were available so that we could make a prompt and efficient start to our work on the first day we arrived. Working papers were of a good standard.

Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some minor adjustments to the accounts were requested and agreed.

A number of disclosure amendments were also identified which have been amended appropriately. The volume of disclosure amendments required was higher than previous years. However, this is considered to relate largely to work required to account under International Financial Reporting Standards (IFRS) for the first time in 2010/11.

Compared to other local government bodies, the Finance Team performed well in preparing for, and restating the financial statements on an IFRS basis.

We anticipate issuing an unqualified audit opinion once the Management Committee have approved the financial statements.

Significant audit and accounting issues.



Our audit identified no significant issues. There has been no impact on General Fund balances through adjustments made to the accounts.

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Deficiencies in internal control systems.

We are pleased to note that we did not identify any material weaknesses in the accounting and internal control systems during our audit. A small number of minor control weaknesses were noted and these will be reported separately to the Assistant Director - Finance.

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Use of Resources/Value for Money conclusion.



We anticipate issuing an unqualified value for money conclusion. We report in more detail a summary of our work and findings in this area in section 5.

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

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Committee throughout our work.

## 2. Review of draft 2010/11 financial statements

### Comprehensive Income and Expenditure

A summarised version of your Comprehensive Income and Expenditure Statement for 2010/11 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2010/11 '£000	2009/10 '£000	Movement '£000	Note Reference
<b>Net Cost of Services</b>	(3,942)	(1,991)	(1,951)	Note 1
Other Operating Expenditure	968	775	193	
<u>Financing, Investment, taxation and grant income</u>	<u>461</u>	<u>485</u>	<u>(24)</u>	
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(2,513)</b>	<b>(731)</b>	<b>(1,782)</b>	
Other comprehensive (income)/expenditure	511	(682)	1,193	
<b>Total comprehensive income and expenditure for the year</b>	<b>(2,002)</b>	<b>(1,413)</b>	<b>(589)</b>	

Note 1 – The Committee's overall comprehensive income and expenditure position has improved year on year. Gross expenditure has decreased year on year. This is driven by changes in business activity during the year and whilst ESPO has seen increased expenditure from non member authorities, this has tended to be on smaller stores items which has been outweighed by a drop in expenditure on larger items.



## The Balance Sheet

A summarised version of your Statement of Financial Position for 2010/11 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2010/11 '£000	2009/10 '£000	Movement '£000	Note Reference
Long Term Assets	10,986	11,742	(756)	Note 1
Inventories	4,435	4,488	(53)	
Short Term Debtors	7,219	7,721	(502)	Note 2
Cash and cash equivalents	4,984	1,802	3,182	
<b>Total Assets</b>	<b>27,638</b>	<b>25,753</b>	<b>1,885</b>	
Current Liabilities	(11,110)	(10,726)	(384)	
Long term Liabilities	(9,700)	(10,215)	515	
<b>Net Assets</b>	<b>6,814</b>	<b>4,812</b>	<b>2,002</b>	
Unusable Reserves	891	1,134	(243)	
Usable Reserves	5,923	3,678	2,245	Note 3
<b>Total Reserves</b>	<b>6,814</b>	<b>4,812</b>	<b>2,002</b>	

Note 1 – There are a number of movements contained within this net figure including acquisitions, disposals and depreciation. However, the single largest impact relates to the reduction in value of non-current assets, and more specifically a reduction in the value of the ESPO building of £600,000 which has arisen as a result of a full valuation of the ESPO building by the Committee's valuer. This is expected in times where land and building values are showing considerable volatility, particularly industrial buildings.

Note 2 – The decrease in debtors year on year is attributable primarily to a decrease in sundry debt. This is primarily made up of customer accounts and levels of debt can be affected by the timing of bank holidays and school holiday periods. In 2009/10 the higher level of debt outstanding was largely due to the fact that the Easter school holidays fell around the year end period, and recovery of these monies was delayed as a result.

Note 3 – Three new reserves have been created in 2010/11: one for a legal claim against the Committee (£500,000), one of the implementation of the strategic review (£400,000) and a third for pay harmonisation (£520,000). In addition to this both the earmarked projects reserve and general fund have been increased in year due to better than expected performance.

### 3. *Updating you on our risk assessment and audit response*

#### *Risk Assessment*

We reported our planned audit approach to you in March 2011. Our Audit Plan included the risks to be addressed as part of the audit and the work we planned to do in response.

We have summarised our actual responses to the risks included in our Audit Plan in the table below:

Risks (as identified in the audit plan)	Audit response
<p><b>Revenue and Expenditure Recognition</b></p> <p>There is a risk that the Committee could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>We have performed substantive testing on both the income and expenditure balances, selecting a sample of transactions and agreeing them back to prime documents e.g. invoices and also to bank statements.</p> <p>We have relied on the controls that ESPO operates in relation to the purchase and sales cycles and have performed work to enable us to rely on the work of internal audit in this area.</p> <p>We have also performed substantive testing of debtors and creditors and ensured that transactions are recorded in the correct financial period.</p> <p>We have considered the appropriateness of the accounting policies that ESPO adopts and deem these to be, in the main, appropriate. Accounting for rebates in the correct financial period continues to provide challenges for ESPO and this is discussed in more detail below.</p> <p>We will also review the management reconciliation of the financial statements to the management accounts as set out in Note 24 to the accounts. This is an outstanding item of testing as noted above.</p> <p>We found no issues to report in this context.</p>

**Risks (as identified in the audit plan)****Audit response****Management Override of Controls**

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

We have updated our understanding of the Committee's controls around journals and gained some assurance on the Committee's arrangements for dealing with staff leavers, in particular controls over physical security and access to financial systems.

Our final accounts procedures included testing of:

- the appropriateness of journals processed during the year;
- key year-end control account reconciliations, including the bank reconciliation;
- transactions recorded after the year-end; and
- significant accounting estimates.

No significant concerns were identified as a result of this work.

**2010/11 – the first year of reporting under IFRS**

IFRS involves new and revised financial statements and an increase in disclosures. In the first year, there is a risk of material error in the restatements and reclassifications and in the information required by the new Code of Practice on Local Authority Accounting.

The Committee is required to restate the 2009/10 financial statements together with its position at 1 April 2009.

We reviewed the draft financial statements provided by the Committee against the requirements of IFRS and considered the adjustments made to the prior year figures in order to support the transition to IFRS.

Additionally, a review of the financial statements by an IFRS expert was undertaken.

We have performed specific audit procedures on the following areas which were identified as specific risk areas upon transition to IFRS:

- valuations for non-current assets;
- lease accounting;
- accruals for employee benefits; and
- disclosures in the accounts.

There were no significant issues arising from our work that we wish to draw to the attention of members of the Management Committee.

Some minor control recommendations were identified for future consideration by management. None of these were of such significance to require drawing to your attention.

Risks (as identified in the audit plan)	Audit response
<p><b>Financial Standing</b></p> <p>The Public Sector is experiencing increased pressures on many of its budgets as economic conditions have worsened. The Committee may therefore experience decreased demand for its products and services.</p>	<p>We sought to understand and evaluate the controls relating to budget monitoring. We discuss this later on in our report in the context of our Value for Money Conclusion.</p> <p>We have kept abreast of changes you are making to the Committee, in particular, the workstreams ongoing to improve financial management, governance and your business strategy. We will review the PID when received from management and provide a verbal update to members if this alters our conclusions in this respect.</p> <p>We are satisfied that ESPO have the requisite resources to fund ongoing operations for at least the next 12 months, that is, we are satisfied that the accounts should be prepared on a going concern basis.</p>
<p><b>System Upgrade</b></p> <p>During 2010/11 the Committee's integrated finance system has been upgraded.</p>	<p>Internal audit reviewed the systems, processes and controls in place for managing and implementing the upgrade to the ERP system. We assessed the work of internal audit and concluded that we could place reliance on the testing performed.</p>
<p><b>Joint Committee Review</b></p> <p>During 2010/11 the Joint Committee is being reviewed by its host Authority, Leicestershire County Council. This could affect the way that the Committee works in the future.</p>	<p>We have reviewed the outputs of the Joint Committee review and have discussed these with management. There were no factors within this review that resulted in a change to our audit plan.</p> <p>We have performed our audit of ESPO on a going concern basis.</p>

## 4. *Significant audit and accounting matters*

### *Financial statements*

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion. At the time of writing, the key outstanding matters are:

- receipt of outstanding declarations of interests from members;
- approval of the financial statements by the Management Committee; and
- receipt of all relevant signed statements and the management representation letter.

### *Accounts preparation*

Preparing draft accounts by 30 June in the first year of IFRS has been challenging for all bodies reporting under the local authority code of audit practice. A significant amount of work has been completed across the Committee to review historic records and to consider the impact of IFRS. We agreed in advance what we would need for our audit and this was ready for us when we arrived.

The Finance Team worked hard to meet the timescales and were helpful in resolving our queries. We would like thank the Finance Team for their support and assistance during the audit.

### *Accounting issues*

#### ***Gas Accruals***

The Committee procures gas on behalf of its customers. At the year end it is not unusual for there to be invoices outstanding that relate to gas consumed in the financial year by the Committee's customers. As we reported to you in 2009/10, due to the complexities involved in determining a reliable estimate of the amounts involved, there is a significant amount of work required to accrue for any outstanding income or expenditure that relates to these contracts. Accounting for additional items received after the cut off date on an accruals basis is unlikely to have a significant financial impact on the Committee's reported surplus for the year as margins earned on gas contracts are low for ESPO.

#### ***Rebates***

In 2009/10 we discussed with you the appropriateness of the accounting treatment of rebates. ESPO periodically receives rebates from suppliers based on the level of expenditure incurred by both ESPO and its customers. Due to complexities surrounding the period to which the rebates relate, the Committee cannot reliably estimate amounts due from rebates. The financial impact of accounting for rebates on a receipts and payments basis could underestimate to a much greater extent, the Committee's reported surplus position for the year as rebates are directly attributable to the Committee. The Committee has therefore changed its processes in 2010/11 to lengthen the date after which rebates are considered. This has increased rebate income by £703,000 in 2010/11.

As set out in our letter of representation (Appendix) we require the Committee to confirm to us that you are satisfied with the appropriateness of accounting for gas accruals on a cash basis and the process you have adopted in accruing for rebates.

### *Misstatements and significant audit adjustments*

#### ***Uncorrected misstatements***

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. We are pleased to note that there are no misstatements identified during the course of our audit, which remain unadjusted.

**Adjusted misstatements**

The net impact of the adjustments made to the accounts has been to increase creditors by £99,000 and to decrease provisions by a corresponding amount. There has been no impact on General Fund balances through adjustments made to the accounts.

**Judgments and accounting estimates**

The following significant judgments or accounting estimates were used in the preparation of the financial statements.

**Valuation of non-current assets**

The valuation of non-current assets is an area of significant judgement within the accounts. We have performed detailed work on assessing the valuation methodology applied by your professional valuer and the credentials of your valuations team. We found no areas to report in this context.

**Accruals**

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

**Contingent Liabilities**

Disclosure of contingent liabilities is a particular area of judgement, You have disclosed a contingent liability in respect of the legal case currently ongoing against ESPO. You have also created a reserve of £500k which equates to the value of the existing legal costs on the claim. We are satisfied with the accounting treatment applied but will review events up to the date of signing our opinion as any changes could affect the required disclosures.

**Bad Debt Provision**

Your Bad Debt Provision is calculated by assessing the potential recoverability of invoices which are beyond the due date for payment. There is an inherent level of judgement involved in calculating this provision, which is £85,854 as at 31 March 2011 (£294,839 as at 31 March 2010). We have considered the recoverability of debtors and have not identified any significant concerns in the way that you have calculated your bad debt provision.

**Management representations**

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in the Appendix.

**Going concern**

There were no material uncertainties related to events and conditions that may cast significant doubt on the Committee's ability to continue as a going concern. We have concluded that in overall terms, you have sufficient resources available to meet your commitments for at least a 12 month period after the date of our audit opinion. We have therefore concluded that the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.

	31/03/2011 (£'000)	31/03/2010 (£'000)	Movement (£'000)
General Fund	2,137	1,893	244
Earmarked Revenue Reserves	3,786	1,785	2,001
<b>Total Revenue Reserves</b>	<b>5,923</b>	<b>3,678</b>	<b>2,245</b>

The table above indicates that during 2010/11 the Committee increased total revenue reserves by £2.2m. This was in the main, attributable to the creation of three new reserves for pay harmonisation, the strategic review and the legal claim against the Committee.

### ***Audit independence***

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Committee and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

### ***Accounting systems and systems of internal control***

It is the responsibility of the Committee to develop and implement systems of internal control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

We have identified no issues that we wish to bring to your attention. The audit work we have conducted has identified a small number of minor control weaknesses which we will report separately to management.

### ***Annual Governance Statement***

Local government bodies are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE): 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### ***Electors' questions or objections***

There have been no electors' questions or objections raised regarding the financial statements to date.

### ***Risk of fraud***

As part of our work on fraud, we enquire with management as to whether there have been any actual, suspected or alleged frauds affecting the Committee which as auditors we should be made aware of. We discussed with the Management Committee its understanding of the risk of fraud and of fraud issues when presenting our Audit Plan. To date we have not identified any material instances of fraud that would impact on our audit opinion. If this status changes between the date of this report and the signing of our audit opinion, we will be required to consider the impact on our audit opinion.

In presenting this report, we seek the Management Committee's confirmation that there have been no matters of which you are aware that have arisen in relation to the risk or incidence of fraud that should be brought to our attention. A specific confirmation from the Committee in relation to fraud will be included in the letter of representation.

## 5. *Value for money conclusion*

### *Economy, efficiency and effectiveness*

Our responsibilities as the Committee's appointed auditors require us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Our work to support our Value for Money conclusion comprised the following elements:

- work performed on the key lines of enquiry (KLoEs) specified by the Audit Commission as underpinning the value for money conclusion; and
- review of the annual governance statement.

Based on the work we have undertaken, we anticipate issuing an unqualified value for money conclusion.

We recognise that you are on a journey to improve the arrangements you have in place which govern the business and manage your finances.

We have taken this into account in forming our value for money conclusion. Whilst we have identified areas where you could strengthen your arrangements, we have been assured by the fact that these are areas you are already addressing as part of the workstreams you have in motion. These areas include:

- Risk management – the need to strengthen the process for the escalation of risk and to establish an assurance framework in respect of strategic risks identified.
- Medium term financial planning – the development of longer term financial forecasts, and financial modeling which reflects your strategic direction and can be flexed to consider the financial impact of threats to the achievement of your strategic objectives.
- Budgeting and regular financial reporting - the development of your management accounts function including more tailored financial reporting on a service line basis.



## 6. Fees update

### *Audit plan*

We issued our Audit Plan for 2010/11 and presented it to the Management Committee in March 2011. There have been no significant changes to our Audit Plan since this time.

### *Fees update for 2010/11*

We reported to you our fee proposals as part of the Audit Plan for 2010/11. Our actual fees are expected to be in line with our original proposals as follows.

	<b>2010/11 Outturn (£)</b>	<b>2010/11 Fee proposal (£)</b>
Audit fee, including financial statements audit, Use of Resources/Value for Money conclusion and IFRS transition work.	24,400	24,400
<b>TOTAL</b>	<b>24,400</b>	<b>24,400</b>

### *Non-audit work*

We have not performed any work which falls outside of the Code of Audit Practice.

# *Appendices*

# Letter of representation

29 September 2011

**To: PricewaterhouseCoopers LLP**

Donington Court  
Herald Way  
Pegasus Business Park  
Castle Donington  
DE74 2UZ

Your Ref: AB/CK

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Eastern Shires Purchasing Organisation (the "Committee") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

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

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

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

***Financial Statements***

I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

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

I confirm that the accounting for gas accruals and rebates is appropriate and does not result in a material misstatement of the financial statements.

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

### ***Information Provided***

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

I have provided you with:

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

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

### ***Fraud and non-compliance with laws and regulations***

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

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Committee and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Committee's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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

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

### ***Related party transactions***

I confirm that we have disclosed to you the identity of the Committee's related parties and all the related party relationships and transactions of which we are aware.

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

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

### ***Employee Benefits***

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

### ***Contractual arrangements/agreements***

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

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the accounting treatment in relation to the ongoing legal claim against ESPO is in line with IAS37 and the associated costs in creation of a reserve are complete and represent a prudent assessment of the likely cost to be borne by the Committee based on facts available at this point in time.

### ***Taxation***

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

In particular:

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

### ***Bank accounts***

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

### ***Going Concern***

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

### ***Assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2011, have been taken into account or referred to in the financial statements.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2011 have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Committee, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the financial statements have been disclosed to you.

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

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

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

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

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

### ***Using the work of experts***

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

As minuted by the Management Committee at its meeting on 29 September 2011

Treasurer

For and on behalf of Eastern Shires Purchasing Organisation

Date:

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

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