

Your Ref.

Our Ref

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Date 23 October 2019

Merran McRae - Chief Executive

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Typetalk calls welcome

To: Members of the YPO Joint Committee Audit and Scrutiny Sub-Committee

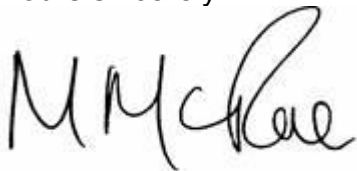
Dear Member

YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 1 NOVEMBER 2019

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit and Scrutiny Sub-Committee which is to be held at **10:30 am on Friday, 1 November 2019 in the YPO Headquarters** to consider the items set out in the agenda attached.

Please note a training session entitled 'Internal Audit Training' will take place prior to the meeting at 10am.

Yours sincerely



Merran McRae
Secretary to the Joint Committee

As a courtesy to colleagues will you please turn off your mobile phones and pagers prior to the start of the meeting.

YORKSHIRE PURCHASING ORGANISATION AUDIT & SCRUTINY SUB-COMMITTEE

Friday, 1 November 2019

AGENDA

1. Chair's Introduction and Welcome.
2. Acceptance of Apologies for Absence.
3. Members' Declaration of Interest.
4. To note any items which the Chair has agreed to add to the agenda on the grounds of urgency.
5. To approve, as a correct record, the Minutes of the Meeting of the Audit & Scrutiny Sub-Committee held on 29th May 2019. (Pages 1 - 4)
6. Internal Audit Progress Report. (Pages 5 - 26)
7. External Audit Plan. (Pages 27 - 44)
8. Year End Closedown Timetable. (Pages 45 - 47)
9. Exclusion of the Public and Press
“That the public and press be excluded from the meeting during consideration of agenda item 10 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended”.

IN PRIVATE

10. IT Programme Update (Link). (Pages 49 - 52)

YORKSHIRE PURCHASING ORGANISATION

AUDIT & SCRUTINY SUB-COMMITTEE

WEDNESDAY, 29TH MAY 2019

MEETING NOT QUORATE – MINUTES FOR INFORMATION ONLY

Present: The Chair: Councillor Warburton (Bradford)

Councillors: Warburton (Bradford), Barnard (Barnsley), Dadd (North Yorkshire)

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| 98. | CHAIR'S INTRODUCTION & WELCOME |
| | Councillor Warburton welcomed all parties to the meeting. |
| 99. | ACCEPTANCE OF APOLOGIES FOR ABSENCE |
| | Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Rehman (Wigan), Nightingale (Doncaster), Vjestica (Rotherham), and Neil Warren (Wakefield). |
| 100. | MEMBERS DECLARATION OF INTEREST |
| | No declarations of interest were made. |
| 101. | URGENT ITEMS |
| | No urgent items were discussed. |
| 102. | PREVIOUS MINUTES (AUDIT & SCRUTINY SUB COMMITTEE) |
| | The minutes of the YPO Audit & Scrutiny Sub-Committee held on 15 th February 2019 were unable to be approved as today's meeting was not quorate. |
| 103. | EXTERNAL AUDIT REPORT |
| | <p>Matthew Moore (KPMG) shared the External Audit report from KPMG.</p> <p>Matthew Moore provided a verbal overview of the report and noted it is still in draft position as there is a technical accounting issue in relation to pensions. The report summarises the key findings for 2018 based on the work completed on site in January and April 2019.</p> <p>Matthew Moore thanked the finance team for their continued work and support.</p> <p>Councillor Dadd raised a question on the additional fee and was satisfied with the response from KPMG.</p> <p>A discussion was held around the pensions issue and why it has taken this long to resolve.</p> <p>Councillors thanked for KPMG for their work.</p> |

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| | Resolved – (1) That the report be noted. |
| 104. | AUDITED STATEMENT OF ACCOUNTS |
| | <p>Consideration was given to a report of the Head of Finance which detailed the provisional 2018 Audited Statement of Accounts.</p> <p>The Audited Statement of Accounts have been externally audited and the auditors anticipate an unqualified opinion.</p> <p>Paul Smith noted our thanks to KPMG for their work over the years.</p> <p>Resolved – (1) That members note the report.</p> <p>(2) The inquorate Audit & Scrutiny Sub Committee indicated the members present would want to recommend that the Audited Statement of Accounts be submitted to the Annual General Meeting in June for formal approval.</p> |
| 105. | APPOINTMENT OF AUDITORS |
| | <p>Consideration was given to a report of the Head of Finance in relation to the appointment of auditors.</p> <p>Paul Smith shared the result of the tender exercise, following a review of both cost and quality, it is proposed that Mazars should be appointed as the contracted auditor for 2019 to 2023.</p> <p>Resolved – (1) The inquorate Members recommend the Management Committee approve the appointment of Mazars as YPO's external auditors for the next 5 years.</p> |
| 106. | AUDIT & SCRUTINY SUB COMMITTEE TERMS OF REFERENCE & WORK PROGRAMME |
| | <p>Consideration was given to the report of the Managing Director which provided members with an overview of the work scheduled for the 2019/20 committee cycle.</p> <p>The report also proposed the Terms of Reference, Principal Agenda Items, 2019/20 Meeting Schedule and Training Plan.</p> <p>Resolved – (1) That the report be noted and submitted to the Annual General Meeting in June for formal sign off.</p> |
| 107. | GOVERNANCE REVIEW |
| | <p>Consideration was given to a report of the Managing Director entitled Governance Review.</p> <p>The report explained that YPO has various governance policies and these are reviewed at least annually by the Board, any changes to these policies are brought to Committee for approval.</p> <p>The report detailed when each policy was last reviewed and any proposed action by the Board.</p> <p>Resolved - (1) That the inquorate Committee note the contents of the table at</p> |

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| | paragraph 1.2. |
| 108. | DRAFT ANNUAL INTERNAL AUDIT PLAN 2019 |
| | <p>Consideration was given to a report of the Service Manager for Internal Audit & Risk from Wakefield Council (Jason Brook), entitled Draft Annual Internal Audit Plan for 2019.</p> <p>The report details the process that has been followed to determine the priorities for the draft 3 Year Audit Plan.</p> <p>Jason Brook shared the draft plan with Members.</p> <p>Resolved – (1) That the inquorate Members recommend the proposed Internal Audit Plan for 2019 to 2021 for approval by the Management Committee.</p> |
| 109. | EXCLUSION OF THE PUBLIC AND PRESS |
| | <p>Resolved – That the public and press be excluded from the meeting during consideration of agenda items 13 and 14 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p> |
| 110. | IT PROGRAMME UPDATE (LINK) (EXEMPT – PARAGRAPH 3) |
| | <p>Consideration was given to the report of the Executive Director (Paul Smith) which provided Members with an update on the current project dossier.</p> <p>The report summarised the progress with the IT Programme.</p> <p>Paul Smith shared a further update on the risks.</p> <p>Resolved – (1) That the report be noted.</p> |
| 111. | PROPERTY RISK REPORT (EXEMPT – PARAGRAPH 3) |
| | <p>A report of the Executive Director (Julie Wray) was shared entitled Property Risk Report.</p> <p>Simon Hill shared the report. The purpose of the report is to update Members on the planned activities to address the various implications arising from the insurance risk report received in May 2018.</p> <p>Simon Hill noted that the insurance have confirmed they will still cover us without sprinklers in place, and have downgraded the sprinkler risk to a recommendation rather than a requirement.</p> <p>Simon Hill noted we are undertaking a comprehensive review of our Business Continuity plans as a result of this.</p> <p>We are also undertaking a full property review in order to put together a property strategy, this will be completed in quarter three and shared with Members.</p> |

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| | <p>Simon Hill noted he is happy the initial short-term risk has been resolved.</p> <p>Councillors raised a number of questions and were satisfied with the responses provided.</p> <p>Resolved – (1) Members noted the content of the report.</p> |
| | |
| 112. | DATE AND TIME OF NEXT MEETING |
| | <p>Resolved – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee is proposed to be held on Friday 1st November 2019, 10.30am.</p> |
| | |



YPO

AUDIT & SCRUTINY SUB-COMMITTEE

TO BE HELD ON

1ST NOVEMBER 2019

TITLE: PROGRESS ON THE 2019 INTERNAL AUDIT PLAN

REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK

1 PURPOSE OF REPORT

- 1.1 This report is produced by the Service Manager for Internal Audit & Risk to provide assurance in relation to the following:
- Internal Audit's ongoing conformance with the Public Sector Internal Audit Standards (PSIAS), which should reassure Members of this Sub-Committee why they can place trust in our audit work;
 - That we have sufficient resources to complete the planned audit work over the next two months. This will be used as the basis for the annual internal audit assurance opinion;
 - Internal Audit's role as 'critical friend' in relation to the LINK Programme and risk management arrangements at YPO.

2 BACKGROUND INFORMATION

Public Sector Internal Audit Standards

- 2.1 As a public sector internal audit service there is a requirement to conform to the PSIAS, which is mandatory in nature. As part of these standards there is a requirement to undertake ongoing assessments, to measure conformance, and report the results to senior management and the relevant audit committee.
- 2.2 An external assessment, which is required to be completed at least every five years, was last undertaken in 2016/17 by the Head of Internal Audit for Calderdale Council. An opinion of 'generally conforms' was provided which is the highest rating. Subsequent annual internal assessments have confirmed that the rating of 'generally conforms' is still appropriate.
- 2.3 In order to demonstrate continuous development there is a requirement for the chief audit executive to maintain a quality assurance improvement programme, and associated action plan. This should also be shared with senior management and the relevant committee.

Annual Internal Audit Plan 2019

- 2.4 The Annual Audit Plan was considered by this Sub-Committee in May 2019, and subsequently approved by the Management Committee in June 2019. In order to maximise audit coverage, for sample testing purposes, this work is planned for completion between November and December each year.

LINK Programme

- 2.5 The LINK Programme is a replacement of the current main office systems at YPO and is scheduled to go live on the 2nd December 2019. Internal Audit has provided consulting services to act as a 'critical friend' through the process. This work has been continuing through 2019.

Risk Management

- 2.6 A review of YPO's risk management arrangements, against industry good practice, was undertaken by Internal Audit in 2018. An opinion of 'mostly effective' was provided and opportunities were identified for further improvements, particularly regarding:

- Defining risk appetite;
- Rating the adequacy of existing risk mitigation arrangements (i.e. controls);
- Clearly defining the role of the risk owner; and,
- The roll out of training to all appropriate staff.

- 2.7 As part of the Internal Audit Plan for 2019 it was agreed that Wakefield Council's Risk Manager would support YPO management in enhancing risk management arrangements.

3 STRATEGIC IMPLICATIONS

- 3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the 2019 Internal Audit Plan link to various YPO strategic risks.

4 FINANCIAL IMPLICATIONS

- 4.1 The annual cost for the internal audit provision at YPO is £45,000 per year. This cost is part of a wider Service Level Agreement between YPO and Wakefield Council.

5 LEGAL IMPLICATIONS

- 5.1 There is a statutory requirement for an Internal Audit function within YPO, as set out in the Accounts and Audit Regulations and implied within the Local Government Act 1972, relating to the responsibility of a designated statutory s151 Finance Officer to gain assurance on the proper administration of the Joint Committee's financial affairs.

6 EQUALITY IMPLICATIONS

- 6.1 Equality issues are taken into account when considering internal audit coverage of the Organisation's key strategic risks.

7 RISK IMPLICATIONS

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the systems of internal control. Its contribution assists in identifying areas for improvement in control in the management of key risks.

- 7.2 In line with the terms of reference for the Audit & Scrutiny Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

8 RECOMMENDATION

8.1 That Members note:

- a) The outcome of the internal assessment on conformance with the Public Sector Internal Audit Standards, the quality assurance and improvement programme action plan, and the proposed Internal Audit Charter.
- b) That sufficient resources are in place to complete the scheduled internal audit work in November and December 2019. This will enable the annual internal audit assurance opinion to be provided within the required timescales;
- c) That support, as a 'critical friend', continues to be provided on the 'Link Programme'; and,
- d) That support continues to be provided to assist management in enhancing existing risk management arrangements.

APPENDIX:

Appendix A - Update Report

Appendix B - Quality Assurance and Improvement Programme Action Plan

Appendix C - Draft Internal Audit Charter

Contact Officer:

Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)

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APPENDIX A

Internal Audit Update Report As at the 20th October 2019

REPORT OF:

Jason Brook Service Manager for Internal Audit & Risk (Wakefield Council)
Email address: jason.brook@wakefield.gov.uk

1. Background

Public Sector Internal Audit Standards

- 1.1 As a public sector internal audit service there is a requirement to conform to the Public Sector Internal Audit Standards (PSIAS). Amongst the key elements of the PSIAS are that the chief audit executive (i.e. the Service Manager for Internal Audit and Risk) must:
- Develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity (**PSIAS 1300**);
 - Ensure that the quality assurance and improvement programme includes both internal and external assessments (**PSIAS 1310**);
 - Communicate the results of the quality assurance and improvement programme to senior management and the board (**PSIAS 1320**).
- 1.2 Internal assessments must include ongoing monitoring of the performance of internal audit and external assessments must be completed at least every five years. In completing an assessment there are a number of checklists that are available for use. For the purposes of this internal assessment the checklist produced by the Chartered Institute of Public Finance and Accountancy has been used, factoring in comments from the Local Government Application Note.
- 1.3 An external assessment, completed by the Head of Internal Audit of Calderdale Council, was last completed in 2016/17 and gave an opinion of 'generally conforms'. This is the highest rating.

Internal Audit Plan 2019

- 1.4 As already stated the Internal Audit Plan for 2019 was submitted to this Sub-Committee in May 2019 and subsequently approved by the Management Committee in June 2019.

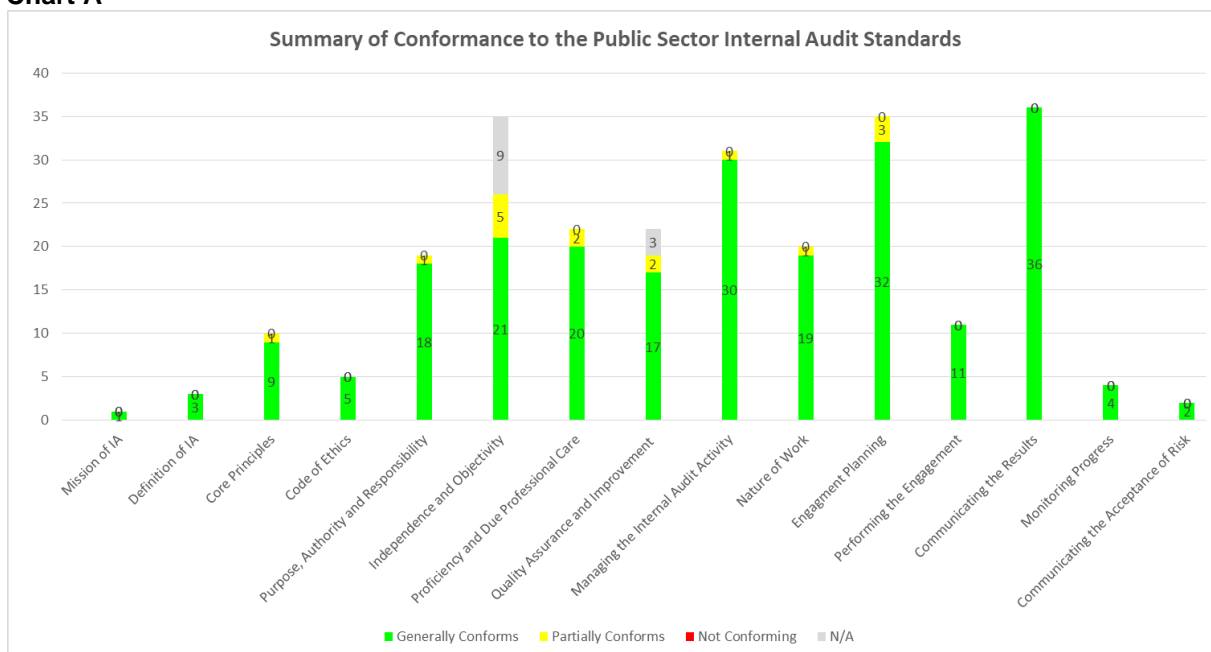
LINK Programme and Risk Management

- 1.5 The Internal Audit Plan for 2019 included resources to support management at YPO in the delivery of the LINK Programme and enhancing existing risk management arrangements. This work is being delivered by Wakefield Council staff acting in the role of a 'critical friend'.

2. Conformance with the PSIAS

- 2.1 The internal assessment, completed in September 2019 by the Service Manager for Internal Audit and Risk, has concluded that Wakefield Council's Internal Audit Service continue to '**generally conform**' to the requirements of the PSIAS.
- 2.2 The CIPFA checklist has 256 individual areas that require an assessment on conformance. As YPO is an external client there were 12 areas that I consider as 'not applicable', this is because they relate to arrangements that are in place at Wakefield Council.
- 2.3 There were no areas of non-conformance in relation to the Services that we provide to the Yorkshire Purchasing Organisation, and a further 16 'partially conforms'. It is my professional opinion that these do not impact on the overall opinion that has been provided. . Chart A provides a high-level summary of the assessment.

Chart A



- 2.4 A quality assurance and improvement programme action plan has been developed to address areas for improvement, this is attached at Appendix B. One of these actions is to develop a specific internal audit charter to formalise the arrangements between YPO and Wakefield Council (see Appendix C).

3. Internal Audit Plan 2019

- 3.1 The following table provides a summary of the scheduled internal audit work that will be completed in time for the annual internal audit opinion.

| Audit | Indicative Scope | Link to YPO Risk Register |
|---|--|---------------------------|
| Key Financial Systems | | |
| Asset Management | To gain assurance that significant assets are properly accounted for and secured. | SRR-07, SRR-08 |
| Creditors | To gain assurance on the effectiveness of controls for raising orders and making payments to the suppliers for goods and services. | SRR-07, SRR-08, SRR-15 |
| Risk-Based Audits | | |
| Adherence to Legislation | To provide assurance on the robustness of health and safety arrangements, including compliance with key policies and legal frameworks. | SRR-12 |
| Business Planning | To provide assurance over the sufficiency of business planning documentation for decision making. | SRR-06, SRR-8, SRR-16 |
| Rebate Income | To gain assurance on the adequacy of controls relating to rebate income. | SRR-02 |
| Follow-Up Audits | | |
| Compliance with the General Data Protection Regulations | To seek assurance that there has been satisfactory progress in mitigating controls weaknesses identified in the 2018 Audit. | SRR-02 |

- 3.2 Internal Audit resources have been planned in to complete the relevant audit work during November and December 2019. This will enable sample testing to include transactions through the full calendar year, thereby maximising internal audit coverage.
- 3.3 There are no expected issues in the delivery of the annual internal audit opinion in 2020.

4. Link Programme

- 4.1 We have continued to provide ongoing support to the LINK project and have met with the Programme Manager on a regular basis since the last Audit and Scrutiny Sub Committee. This work has concluded that the project is being well managed and that the expected go live date seems achievable from the information we have received to date.

5. Risk Management Framework

- 5.1 Wakefield Council's Risk Manager has met with YPO's Assistant Finance Controller to help facilitate their review of existing risk management arrangements. The key areas for discussion were around risk appetite, business continuity management and insurance arrangements.
- 5.2 There was also a discussion on business continuity management arrangements and insurance.

APPENDIX B: QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2019

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| | Action now complete |
| | Annual process/review |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|--|--|---|--|----------------------------|
| 0 Definitions, Core Principles and Code of Ethics | | | | |
| 0.1 | The current definition of Internal Audit generally conforms to the PSIAS requirements. However, there is an opportunity to improve the feedback we receive through the client satisfaction questionnaire process to demonstrate whether we are being “insightful, proactive and future focussed”. (Internal Assessment 2019). | None. | To request that an additional question is set within the CSQ process on whether the audit has been insightful and future focussed. In addition, feedback to be sought from the corporate and service directors. | March 2020 |
| 0.2 | As above, although we generally conform the Audit Manual should be enhanced to explicitly referencing: <ul style="list-style-type: none"> The ‘Seven Principles of Public Life’ (Nolan Committee); Managing threats to the objectivity at the individual auditor level and audit engagement level; The need to consider rotation of individual auditor work programmes. This will reduce the risk of over familiarity or complacency when conducting audits. (Internal Assessment 2019). | None. | To be incorporated into next update of the Audit Manual. | March 2020 |
| ATTRIBUTE STANDARDS | | | | |
| 1 Purpose, Authority and Responsibility (Standard 1000) | | | | |
| 1.1 | Internal Audit related reports should be reported in the name of the designated SMIAR (External Assessment 2016). | All reports are now in the name of the Service Manager for Internal Audit and Risk. | None, implemented for 2017/18 financial year. | Complete 2017 |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
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| 2. Independence and Objectivity (Standard 1100) | | | | |
| 2.1 | <p>An internal audit charter should be developed to demonstrate that:</p> <ul style="list-style-type: none"> The SMIAR has direct and unrestricted access to senior management and the Board (i.e. Audit and Scrutiny Sub-Committee); The SMIAR has free and unfettered access to the chair of the Audit and Scrutiny Sub-Committee; The SMIAR is able to contribute towards the agenda for the Audit and Scrutiny Sub-Committee. There are appropriate reporting lines between the SMIAR, Audit and Scrutiny Sub-Committee and senior management. <p>The Internal Audit Charter should then be approved by the Audit and Scrutiny Sub-Committee. (Internal Assessment 2019).</p> | A draft Internal Audit Charter is attached at Appendix C to address the finding. | Approval of the Internal Audit Charter. | November 2019 |
| 2.2 | <p>There needs to be a formal process for documenting how the SMIAR mitigates the risk of internal audit staff becoming over familiar with client key contacts. This is to ensure continued objectivity and independence in the audit process. (Internal Assessment 2019).</p> | The Audit Management Team do consider these issues as part of the planning process for audit work at YPO. | The Audit Manual will be updated to formally document this. | March 2020 |
| 3. Proficiency and Due Professional Care (Standard 1200) | | | | |
| 3.1 | <p>Internal Audit job descriptions should include reference to PSIAS (External Assessment 2016).</p> | Initial work was completed to link all existing job descriptions to the PSIAS. | The SMIAR is in the process of reviewing all job descriptions and these are being linked to the IIA skills competency framework. I will then consult with the Trade Union on any proposed revisions. | Complete, September 2019 |
| 3.2 | <p>The Internal audit activity collectively must possess or obtain the knowledge, skills or other competencies needed to perform its</p> | The SMIAR is converting to the new Qualification in Internal Audit Leadership (QIAL) qualification | <p>The following actions will also be completed:</p> <ul style="list-style-type: none"> Further counter-fraud | March 2021 |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|-----|---|---|--|---------------------------------------|
| | <p>responsibilities.</p> <p>Including the SMIAR and Audit Manager we have:</p> <ul style="list-style-type: none"> 3 staff who hold qualifications with the Chartered Institute of Internal Audit; 1 staff who is a qualified chartered accountant, through CIPFA; 2 staff who are PINS trained investigators; and, 1 staff who is studying for a qualification with the Chartered Institute of Internal Audit. <p>The remaining staff have AAT qualifications. As a section we therefore need to increase the level of staff who hold a qualification from the IIA or a Chartered Accountancy Body (Internal Assessment 2019).</p> | <p>through the IIA. The AM is enrolled in a management and leadership qualification, and we have two other members of staff who are actively studying.</p> | <p>qualifications will be undertaken by staff;</p> <ul style="list-style-type: none"> Any future recruitment exercises will look to increase the number of qualified staff (either through the IIA or Chartered Accountancy Body); A Training and Development Plan needs to be put in place. | |
| 3.3 | <p>All internal audit staff are required to have sufficient knowledge:</p> <ul style="list-style-type: none"> To evaluate the risk of fraud; Of key information technology risks. <p>At Wakefield Council we have a Senior IT Auditor who holds the IIA Qualification in Computer Auditing (QiCA), a qualified (through the Institute of Risk Management) Corporate Risk Manager, and PINS Trained counter-fraud investigators. We were not making full use of their skills in the development of individual job briefs, impacting on the above PSIAS requirement (Internal Assessment 2019).</p> | <p>This has partially been addressed through the following actions:</p> <ul style="list-style-type: none"> The development of the Audit Manual (see reference 2.4); Requirement for individual job briefs to be considered for ICT, fraud and generic risks; Reviewing officers to ensure that the completed audit work has appropriately considered these issues. | <p>See actions for reference 3.2.</p> | <p>On-going, initially March 2020</p> |
| 3.4 | <p>CPD is required by the Internal Audit Charter, individual professional bodies, and the PSIAS. As a team it is evident that staff have not been maintaining a log of CPD (Internal</p> | <p>The requirement for CPD is included within the Internal Audit Charter. As part of the 2019 performance appraisal process all auditors have</p> | <p>All internal audit staff must review the new Audit Manual as part of their CPD activity for 2019.</p> | <p>March 2020</p> |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|--|--|---|--|----------------------------|
| | Assessment 2019). | been asked to submit their CPD log for review. The 2019/20 Annual Internal Audit Plan for Wakefield Council includes a specific budget for CPD and training. | | |
| 3.5 | All auditors should demonstrate that they have sufficient knowledge of appropriate computer assisted auditing techniques (CAATs) and data analysis. At present the team has 1 officer who is trained in using CAATs, which is a weakness on the team. In terms of data analysis a training session was provided in July 2019 and this has identified that further training is required in this area. (Internal Assessment 2019). | Initial training has been provided in July 2019. | The proposed structure for the Service includes the post of Data Analyst. If agreed the post holder will have some responsibility for training the wider team and enhancing skills in this area. | March 2020 |
| 4. Quality Assurance and Improvement Programme (1300) | | | | |
| 4.1 | In order to provided Members of the Audit and Governance Sub Committee with further assurance as to the effectiveness of the Internal Audit activity consideration should be given to extending the reporting of performance targets from the information contained within the MK Insight system. Examples of the additional targets to be considered include, the following, although are not exhaustive: a) Percentage of audit recommendations accepted by management. b) Percentage of audit recommendation implemented by management. c) Percentage of audits completed within time allocated. d) Percentage of audit reviews communicated within timescale. (External Assessment 2016). | The Service Plan for Internal Audit and Risk 2019/20 has a number of performance indicators relating to the section for internal monitoring purposes. | To continue, on an annual basis, receiving feedback from members of the Audit Sub-Group on the adequacy of existing performance reporting. | Annually |
| 4.2 | In order to take steps to improve response rates to client questionnaires the revised | Agreed, this was being arranged during the review. | None, implemented 31/03/2017. | Annually |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
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| | format should be rolled out and reminders sent. The response rate should be kept under review (External Assessment 2016) . | | | |
| PERFORMANCE STANDARDS | | | | |
| 5. Managing the Internal Audit Activity (Standard 2000) | | | | |
| 5.1 | Consideration should be given to a review of the Audit Manual in order to determine whether this document needs to be refreshed or merged with the Internal Audit Charter. It is acknowledged that this is likely to be considered following agreement on future arrangements for Internal Audit (External Assessment 2016) . | New Audit Manual developed and fully cross-referenced to the PSIAS requirements and recognised good practice. | None, completed June 2019, training started to be rolled in the Summer 2019. Subject to Annual review. | Annual review |
| 6. Planning (2010) | | | | |
| 6.1 | Consideration should be given to the benefits of documenting an agreed risk assessment methodology. (External Assessment 2016) . | The Audit Manual fully details how the Annual Internal Audit Plan is developed. For the 2019 Plan the following steps were taken to demonstrate that it is risk based: <ul style="list-style-type: none"> • Input from senior management; • Input from the Audit and Scrutiny Sub Committee; • Reference to YPO's Strategic Risks; and, • Inclusion of contingency time for emerging risks during the year. | Ongoing work to ensure that the Internal Audit Annual Plan remains risk-based and aligned to YPO's key priorities and objectives. | Annual review |
| 7. Nature of Work (2100) | | | | |
| 7.1 | Consideration should be given to ensuring that the scope of audits consider future risks and opportunities, impact of shifting demand, innovation and effectiveness. This could include: future developments, benchmarking/collaborative findings, wider agendas and commercial awareness. (External Assessment 2016) . | This has been addressed through the new Audit Manual and standard template documents that are in place. | Training is being rolled out over the Summer 2019. | March 2020 |
| 8. Engagement Planning (2200) | | | | |
| 8.1 | Internal Audit management should ensure that | As already detailed a new Audit | Audit Quality Assurance Checklists | December 2019 |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|-----|---|--|---|-------------------------------------|
| | scoping documents are fully completed. If the current format of the scoping document is no longer considered appropriate consideration should be given to reviewing the document. (External Assessment 2016). | Manual has been developed, this is supplemented by Quality Assurance Procedures and standard templates. One of the new templates is a scoping and job brief. This must be signed-off before the audit work can be completed. | being rolled out. The SMIAR and Audit Manager have been in liaison with our internal audit working paper database provider, MKi. As part of these discussions we are utilising more of the functionality of the system. One of these is that an auditor will not be allowed to proceed with testing until the scope/job brief has been approved. | |
| 8.2 | The PSIAS requires that clearly defined Audit Objectives are set for all audit engagements. The SMIAR has identified that this is not consistently the case, instead some audits have just detailed the risk and mitigating controls. (Internal Assessment 2019). | The audit manual and associated guidance clearly sets out the correct requirements and training was provided on the 11th June 2019 on how to scope an audit. One of the key requirements was to start with an audit objective that details what assurance we are seeking to gain. | Further training to be provided in this area. | On-going, to complete by March 2020 |
| 8.3 | The PSIAS requires that internal auditors carry out a preliminary risk assessment of the activity under review. The SMIAR has identified that this is not consistently the case, instead some audits have used previously agreed work programmes rather than completing a fresh risk assessment. (Internal Assessment 2019). | In order to address this the following actions have been taken: <ul style="list-style-type: none"> At the October 2018 Team Meeting the IIA video on 'Seven Deadly Sins of Internal Audit' was played to highlight that it is not accepted good practice to simply pick up the previous IA work programme; The Audit Manual has been completely refreshed and relaunched, this fully details the expected process to be followed; Training has been provided to supplement the roll out of the audit manual (as detailed above this has included training on drafting the scope | Additional training will continue to be provided and a new quality assurance process will be introduced. | On-going, to complete by March 2020 |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|--|--|---|---|----------------------------|
| | | of the audit). | | |
| 8.4 | Given recent changes to arrangements at Wakefield Council with regards to anti-fraud and corruption, internal audit management should give consideration as to how auditors are able to ensure that the risk of fraud is evaluated in the planning stages of an audit. (External Assessment 2016). | See comments at reference 3.3. | Completed, training being rolled out over Summer 2019. | March 2020 |
| 8.5 | Consideration should also be given to evaluating key information technology risk and controls. (External Assessment 2016). | See comments at reference 3.3. | Completed, training being rolled out over Summer 2019. | March 2020 |
| 9. Communicating Results (2400) | | | | |
| 9.1 | Consideration should be given to including within the standard report format that engagements are conducted in conformance with PSIAS. (External Assessment 2016). | <p>This is not an actual mandatory requirement of the PSIAS. All that is required is that if this is detailed within individual audit reports then it should be based on the outcome of the PSIAS assessment process.</p> <p>That said, the SMIAR is reviewing the current standard report format. Initial discussions have been held with our developer (MKi) and they have agreed to provide a new standard report format.</p> | The SMIAR and Audit Manager are in the process of gathering ideas for the new standard report format. An internal working group has been set up to review the existing report format. | January 2020 |
| 10. Monitoring Progress (2500) | | | | |
| 10.1 | Consideration should be given to automating the triggering of the follow-up process, potentially through MK Insight where feasible. If the process is not automated, the documented procedure should be reviewed and communicated to all auditors as a reminder of the process. (External Assessment 2016). | <p>The process could not be fully automated through MKi. However, the Audit Manual has been updated to reflect the follow-up process. Also the Reporting Spreadsheet details whether a follow-up review is required and indicative start dates.</p> <p>The actual follow-up process has been amended. Previously a sample of audits were selected for follow-up reviews. This could result in audits with positive assurances being</p> | As previously detailed training is being rolled out, which started in the Summer 2019, on the new Audit Manual and Quality Assurance Procedures. | Annual |

| Ref | Issue Identified (details of how) | Action to Date | Outstanding Action | Agreed Implementation Date |
|-----|-----------------------------------|--|--------------------|----------------------------|
| | | <p>selected for follow-up review. The SMIAR considered this process to contradict the PSIAS requirement to produce risk-based plans. Accordingly, follow-up reviews are now required where an opinion of limited or nil assurance has been provided (previously partially effective or ineffective).</p> <p>In addition the 2019 audits will have split opinions on the adequacy of controls and compliance.</p> | | |

Appendix C: Draft Internal Audit Charter 2019

INTERNAL AUDIT CHARTER WITH YPO 2019

1. Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1st April 2013. In implementing these requirements, the Chartered Institute of Public Finance and Accountancy (CIPFA) has published a Local Government Application Note that recognised certain accepted practices.
- 1.2 One of the mandatory PSIAS requirements is for an Internal Audit Charter to be in place that is consistent with their definition of internal auditing and includes the Code of Ethics and relevant Standards (attribute and performance).
- 1.3 This Internal Audit Charter conforms to the latest PSIAS requirements and replaces any previous Internal Audit Charter.

2. PUBLIC SECTOR INTERNAL AUDIT STANDARDS

- 2.1 The PSIAS require the Internal Audit Charter to recognise the following:
 - Its mandatory nature, in particular the definition of internal auditing, professional code of ethics and applicable standards;
 - Define the terms 'Chief Audit Executive', 'Board' and 'Senior Management' within the Yorkshire Purchasing Organisation (YPO);
 - Set out the responsibility of the 'Board' and the statutory officers with regard to Internal Audit;
 - Establish the responsibilities, objectives and scope of Internal Audit;
 - Define the nature of consulting services;
 - How the organisational independence of Internal Audit is ensured;
 - The accountability, reporting lines and relationships between the Chief Audit Executive (CAE) and the following:
 - 'The Board';
 - Those to whom they (the CAE) must report functionally;
 - Those to whom the CAE may report administratively.
 - The process for avoiding conflicts of interest where Internal Audit undertakes non-audit activities;
 - The counter fraud and corruption arrangements that exist within the organisation. This should include the need for the CAE to be notified of all suspected or detected fraud, corruption or impropriety so that this can inform the annual audit opinion and the risk-based plan;
 - Define the role of Internal Audit in any fraud-related work;
 - Recognise that Internal Audit's remit extends to the entire control environment of the organisation and not just the financial controls; and,
 - Establish Internal Audit's rights of access to all records, assets, personnel and premises, including those of partner organisations (where appropriate), and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

3. Definitions

Definition of the Chief Audit Executive

- 3.1 The term 'Chief Audit Executive' describes the responsible person, who is in a senior position, for effectively managing the internal audit activity in conformance with the PSIAS requirements. Within Wakefield Council, the Service Manager for Internal Audit and Risk (SMIAR) is the designated 'Chief Audit Executive' and therefore fulfils this role for YPO under an existing Service Level Agreement.

Definition of the Board

- 3.2 The PSIAS sets out the role of a Board in relation to specific standards. In a local authority the role of the Board may be satisfied by an audit committee and at YPO this is the Audit and Scrutiny Sub-Committee.
- 3.3 In line with PSIAS requirements the Audit and Scrutiny Sub-Committee at YPO is required to:
 - Approve the Internal Audit Charter;
 - Approve the risk based Internal Audit Plan, including the approval of the budget and resources for internal audit coverage at YPO;
 - Receive communications from the SMIAR on internal audit's performance relative to its plan and other matters;

- Receive an annual confirmation from the SMIAR with regard to the organisational independence of the internal audit activity;
- Make appropriate enquiries of management and the SMIAR to determine whether there are inappropriate scope or resource limitations.

3.4 It is, however, ultimately the responsibility of Wakefield Council to approve the overall budget for Internal Audit.

Definition of Senior Management

3.5 The PSIAS suggests that 'Senior Management' should:

- Have input to the risk-based internal audit plan;
- Receive periodic reports from the CAE on the internal audit activity as well as progress with follow-up work;
- Receive results of the Quality Assurance and Improvement Programme from the CAE.

3.6 At YPO 'Senior Management' is defined as the YPO Board of Directors and Wakefield Council's Chief Finance Officer.

Definition of Internal Audit

3.7 The PSIAS definition of internal auditing has been adopted, which is as follows:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Definition of Consulting Services

3.8 The PSIAS defines consulting services as follows:

"Advisory and client related service activities, the nature and scope of which are agreed by the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."

3.9 There is also a requirement for approval must be sought from 'the Board' for any significant additional consulting activities not already included in the audit plan, prior to accepting the engagement.

3.10 The term 'significant' is defined as any single assignment that is equivalent to 15% of the annual planned days. Consultancy work will only be undertaken if it does not compromise Internal Audits' independence and objectivity. Any such assignments will be brought to the Audit and Scrutiny Sub-Committee for approval.

4. Purpose, Authority and Responsibility

Purpose

4.1 As defined in the PSIAS it is our mission to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. Our primary objectives are:

- To provide an effective Internal Audit Service, on behalf of YPO, in line with legislation and the appropriate audit standards;
- To provide an independent and objective assurance designed to add value and improve YPO's activities;
- To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Authority

4.2 Internal Audit is located within the Corporate Services at Wakefield Council. The function is led by the Service Manager Internal Audit & Risk (SMIAR), who is managed by the Chief Finance Officer. The Chief Finance Officer also the role of Section 151 (Local Government Act 1972) Officer for YPO and the work of Internal Audit assists in ensuring the robustness of financial controls.

4.3 In delivering the internal audit service for YPO the following rules will apply:

- The SMIAR must be able to report without fear or favour, in their own name to the YPO Joint Management Committee, Board of Directors and any Sub-Committee;
- Senior management at YPO must ensure that internal auditors are allowed access to:
 - All premises and land at all reasonable times;

- Access all records, documents, data and correspondence relating to all transactions of the YPO;
- Receive all explanations as are necessary concerning any matter under examination;
- Require any employee to produce cash, stores or any other property under their control, belonging to the YPO, or held as part of the employee's duties.

Responsibility

- 4.4 The SMIAR is responsible for providing an independent and objective opinion on the overall adequacy and effectiveness of YPO's framework of governance, risk management and control.
- 4.5 The SMIAR reports to the Audit and Scrutiny Sub-Committee on a regular basis, in line with the agreed work programme. The Annual Audit Plan is submitted to the Audit and Scrutiny Sub-Committee for consideration and then approved by the Management Joint Committee.
- 4.6 Internal Audit employees are responsible for conducting their work with due professional care and meeting the requirements of the PSIAS. Their work is subject to review to ensure that conclusions and opinions are evidence based.

5. Organisational Independence and Objectivity

- 5.1 There are the following two requirements within the PSIAS in relation to independence and objectivity:
 - Reporting arrangements for Internal Audit, including the CAE, must be put in place to preserve independence and objectivity;
 - Management of the Internal Audit Service must ensure its continued independence and objectivity.
- 5.2 As an external client, members of Internal Audit (including the SMIAR), have no executive responsibilities or any responsibilities for the development, implementation or operation of systems. Although we provide advice with regards the control environment for the procurement / implementation of any new system as requested by Management, this is not at the detriment of achieving Internal Audit's prime responsibility or its independence.
- 5.3 The SMIAR determines Internal Audit's own work priorities in consultation with senior management and the Audit and Scrutiny Sub-Committee. These priorities are identified within the Annual Internal Audit Plan, which is approved by the Management Joint Committee.
- 5.4 Internal Audit has the necessary access rights to all senior management at YPO. It follows that Internal Audit can report without fear or favour, to any Officer of YPO or elected Member.
- 5.5 The SMIAR ensures the independence and objectivity of the Internal Audit Team by managing potential conflicts of interest. In particular, there is a mechanism to identify any potential independence or objectivity issues highlighted at the planning stage of individual audit assignments.
- 5.6 The SMIAR will confirm to the Audit and Scrutiny Sub-Committee on an annual basis, within the Annual Audit Report, the organisational independence of the Internal Audit Service.

6. Scope of Internal Audit Work

- 6.1 The scope for audit work is the entire control environment that comprises of YPO's risk management, control and governance arrangements. This includes all YPO's operations, resources, services and responsibilities in relation to partnerships and other bodies. In order to meet our objectives a number of activities are completed, including:
 - The identification of new and emerging risks affecting YPO;
 - The adequacy and effectiveness of controls to manage identified risks;
 - Compliance with statutory requirements, recognised good practice and YPO policies and procedures;
 - Counter-fraud and investigative work;
 - Transaction testing to ensure the accuracy of processing;
 - Reviews of significant contracts managed by YPO;
 - Advice to individual service areas, including the provision of consultancy services;
 - Information technology work such as the use of data analytics; and,
 - Value for money reviews.

- 6.2 Individual audit assignments are determined through an ongoing risk assessment process that incorporates an assurance mapping exercise. All our work is subject to review to ensure that it meets professional standards so that opinions are evidence based.
- 6.3 A rich mix of professionally qualified and experienced staff adequately resource internal Audit. All staff are assessed annually against a predetermined skills and competencies framework, as part of the appraisal process, which identifies any professional training needs. They are also encouraged to identify their own personal development needs, which are met wherever possible. The training resources available to Internal Audit are kept under review through the annual planning and monitoring process
- 6.4 The Internal Audit Service has an Internal Audit Manual and associated procedures. These are kept under regular review to ensure that they remain current and relevant.

7. Resourcing of the Internal Audit Function

- 7.1 As set out in the CIPFA Application Note, the CAE is required to provide an annual evidence-based opinion that is based upon local factors. For the internal audit service delivered to YPO, this is based upon the work completed through the year, as set out in the Annual Audit Plan.
- 7.2 Our Annual Audit Plan (see section 8 for further details) sets out the planned audit resources for the year with the objective of providing an evidence-based opinion. In the event that the process for setting the Annual Audit Plan identifies a need for more audit work than there are available resources then this would be communicated to senior management the Audit and Governance Sub-Committee. As part of this process an assessment would be completed to determine the associated benefits of providing additional resources and risks of not including the additional work in the Annual Audit Plan.
- 7.3 Internal Audit work through the year is prioritised according to risk, through the judgement of the SMIAR, informed by YPO's risk registers and in consultation with senior management.
- 7.4 Progress on the achievement of the Annual Audit Plan will be reported to the Audit and Scrutiny Sub-Committee on a regular basis throughout the year. If, during the year, resources are below the level required to provide an annual evidence based opinion the SMIAR will advise senior management and the Committee.

8. Planning

- 8.1 The PSIAS require the CAE to develop a risk-based plan that takes into account the requirement to produce an annual internal audit opinion and the organisation's assurance framework. It must incorporate, or be linked to, a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 8.2 The CAE is also required to review and adjust the plan to reflect changes in the organisation's business, risks, operations, programmes, systems and controls.
- 8.3 As detailed in Section 7, a risk-based Annual Audit Plan is set for each financial year. In setting this plan the following factors are considered:
- Strategic risks, that are linked to the delivery of YPO's objectives and key priorities;
 - Risks documented within YPO's Strategic Risk Register;
 - The risk of fraud and corruption;
 - Previous audit experience in the auditable area;
 - Input from the Audit and Scrutiny Sub-Committee, senior managers and Wakefield Council's Section 151 Officer.
- 8.4 Our Annual Audit Plan will also include some contingency time to enable it to be responsive to emerging risks that could not have been foreseen at the time it is approved.
- 8.5 For each audit assignment the auditor will develop and document a plan that sets out the following:
- The scope of the audit review;
 - The timing and resourcing requirements of the audit;
 - The objectives of the audit (based upon discussions with the service area);
 - The significant risks of the area being audited, this will include links to any strategic risks associated with the achievement of YPO's outcomes and key priorities, as well as operational risks that are critical to the delivery of the Service; and,

- The adequacy of risk mitigation arrangements (including governance processes) for managing the risk to an acceptable level.

9. Relationships

- 9.1 Internal Audit will maintain a good and effective working relationship with the External Auditor, and other inspection regimes in order to prevent duplication of coverage and enhance the level of service provided.
- 9.2 YPO's employees and members shall render every assistance to the internal auditors carrying out their audit responsibilities.

10. Reporting and Follow-up

- 10.1 It is a mandatory requirement of the PSIAS that the results of individual audits are communicated to the client. All communications must:
- Include the engagements objectives, scope and results;
 - Be accurate, objective, clear, concise, constructive, complete and timely;
 - Be to the appropriate parties so that the results can be given due consideration.
- 10.2 In addition, there must be a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- 10.3 A written report is prepared by the auditor for each audit assignment completed for YPO. Reports will be distributed in line with established and agreed reporting protocols for each audit engagement. The report will include an opinion on the adequacy of the control environment and/or compliance for the area reviewed. All communications are reviewed at draft stage and prior to final issuing to ensure conformance to PSIAS requirements set out in paragraph 10.1.
- 10.4 In addition, all draft reports are discussed with the agreed client contacts and a response obtained for each recommendation stating their response and a timescale for implementation. The final report will include the management responses and is issued to all relevant officers, as required by our reporting protocols.
- 10.5 As part of the regular update reports to the Audit and Scrutiny Sub-Committee we will:
- Report on the implementation of high priority audit recommendations;
 - Following discussion with senior management, report on identified instances where management has accepted a level of risk that is considered to be unacceptable to the organisation;
 - Complete follow-up reviews where an adverse audit opinion has been provided (i.e. where an opinion of either limited or none is provided).
- 10.6 The Annual Audit Report will also incorporate:
- The annual audit opinion;
 - A summary of the audit work that supports the opinion;
 - A statement on conformance with the PSIAS; and,
 - The results of the Quality Assurance and Improvement Programme (QAIP).

11. Assurances to External Organisations

- 11.1 The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms or service level agreements (or equivalent). The work carried out to provide such assurances will be conducted in accordance with our own internal quality assurance processes. Details of any scheduled work will be included in the Annual Audit Plan.

12. Counter-fraud and Corruption

- 12.1 It is the responsibility of management rather than Internal Audit to manage the risk of fraud and corruption.
- 12.2 The PSIAS requires that the role of Internal Audit for counter-fraud related work is defined in the Internal Audit Charter. In addition, as part of individual assignments, internal auditors must consider the probability of fraud but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

- 12.3 Internal Audit will be alert in all its work to the risks and exposures that could allow fraud and corruption. As part of corporate counter-fraud arrangements, all irregularities should be reported to the SMIA.
- 12.4 Where irregularities involve any actual, or suspected, criminal activity the matter is also required to be reported to the police.
- 12.5 Internal Audit will endeavour to assist in the completion of investigations as and when required by YPO.

13. Code of Ethics

- 13.1 Internal Auditors in UK public sector organisations must conform to the PSIAS Code of Ethics. Conformance with the code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.
- 13.2 Where an individual is a member of another professional body then they must also comply with the relevant requirements of that organisation.
- 13.3 The purpose of the PSIAS Code of Ethics is to promote an ethical culture in the profession of internal auditing and there are the following two essential components to this:
- Principles that are relevant to the profession and practice of internal auditing; and,
 - Rules of conduct that describe behaviour norms expected of internal auditors.
- 13.4 Wakefield Council's Internal Audit Service has adopted the PSIAS Code of Ethics, as set out below.

Integrity

- 13.5 Internal auditors will perform their work with honesty, diligence, responsibility and observe the law. They will make disclosures expected by the law and the profession and respect and contribute to the legitimate and ethical objectives of the Council and external clients. They will complete a 'Declaration of Interest' form annually and update it when appropriate.
- 13.6 An auditor will not undertake work where there is a conflict of interest. They will not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing, the Council or any external client. Internal Auditors are required to comply both with the Internal Audit Charter and with Wakefield Council's Code of Conduct for Employees.

Objectivity

- 13.7 Internal Auditors will not take part in any activity or relationship that may impair or be presumed to impair their unbiased assessment nor will they accept anything that may impair or be presumed to impair their professional judgement.
- 13.8 Internal auditors will disclose all material facts known to them.

Confidentiality

- 13.9 Internal Auditors will display confidentiality by acting prudently when using information acquired in the course of their duties and protecting that information in accordance with Wakefield Council's, and our external clients, data protection and information security procedures. They will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council, external client or the professional body/ institute to which they belong.

Competency

- 13.10 Internal auditors will only carry out services for which they have the necessary knowledge, skills and experience and perform services in accordance with the PSIAS. Internal Auditors will look to continually improving their proficiency and effectiveness and quality of their services, for example through Continuing Professional Development (CPD) schemes and Wakefield's Council's Individual Performance Reviews.

14. Quality Assessment of Internal Audit

- 14.1 The PSIAS requires that the CAE develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The QAIP must include findings from both internal (annual requirement) and external assessments (which should be conducted at least once every five years by a qualified and independent assessor).

Internal Assessment

- 14.2 An internal assessment of Internal Audit will be completed by the SMIAR each year. This will include a sample of the quality of internal audit activity along with any changes to the overall internal audit process. This will also include an evaluation of client feedback. The results of this assessment will be reported to the Audit and Scrutiny Sub-Committee.

External Assessment

- 14.3 An external assessment will be completed at least once every five years. The process to be adopted will either be a peer review from another Council provider of internal audit, or the Council's external auditor or another professional assessor. Although Wakefield Council's Audit and Governance Committee will approve the terms of the assessment details of this will be shared with YPO's Audit and Scrutiny Sub-Committee.

Client feedback

- 14.4 Internal Audit also issues a customer satisfaction questionnaire following each audit assignment. The performance measures are based upon local benchmarking and the results are used to determine areas for improvement and inform the continuing personal development of internal auditors.

Audit Strategy Memorandum

YPO

Year ending 31 December 2019





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1. Engagement and responsibilities summary
2. Your audit engagement team
3. Audit scope, approach and timeline
4. Materiality and misstatements
5. Significant risks, enhanced risks, and key judgement areas
6. Value for money conclusion
7. Fees for audit and other services
8. Our commitment to independence

Appendix A - Forthcoming accounting and other issues

This document is to be regarded as confidential to YPO. It has been prepared for the sole use of the Management Committee, being those charged with governance of YPO. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Management Committee
YPO
41 Industrial Park
Wakefield
WF2 0XE

22 October 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 December 2019

We are pleased to present our Audit Strategy Memorandum for YPO for the year ending 31 December 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 8 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing YPO which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07891 739 208.

Yours faithfully

Gareth Hitchmough

Gareth Hitchmough, Partner and Engagement Lead

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of YPO for the year to 31 December 2019. This is a non-statutory audit. The scope of our engagement is set out in our engagement letter.

Our responsibilities

As our external audit is non-statutory, and our responsibilities are only those agreed between YPO and ourselves.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of YPO for the year.

Fraud

Our audit does not relieve the Management Committee (as those charged with governance), of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management.

In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks

Going Concern

The Organisation applies the CIPFA Code of Practice on Local Authority Accounting on a voluntary basis.

It is therefore required to prepare its financial statements on a going concern basis. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of the disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- **Gareth Hitchmough, Partner and Audit Engagement Lead**
- E: gareth.hitchmough@mazars.co.uk
- T: 0151 237 2238 M: 07891 739208



- **Alastair Newall, Senior Manager**
- E: alastair.newall@mazars.co.uk
- T: 0161 238 9243 M: 07909 986776



- **Bethan Frudd, Audit Senior**
- E: bethan.frudd@mazars.co.uk
- M: 07717 343237

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

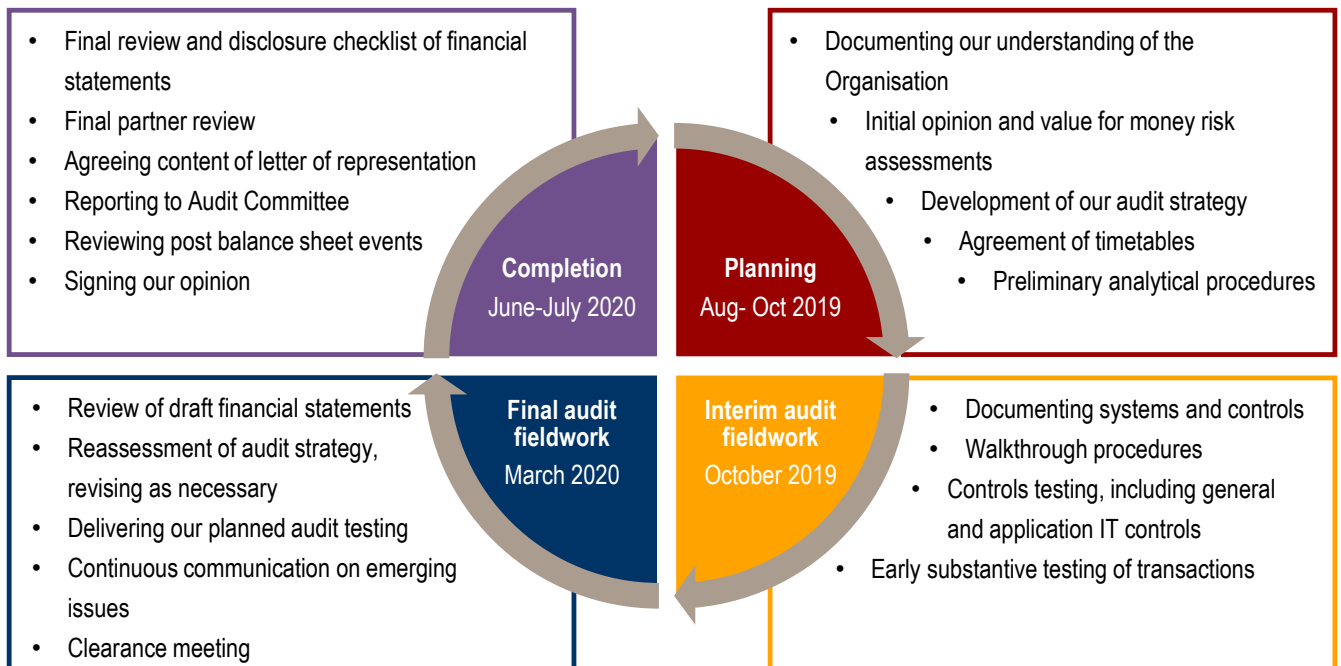
Audit approach

Our audit approach is risk-based and primarily driven by the matters that lead to a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 4.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

We are not planning to rely on the work of internal audit, but should we do so, we would evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

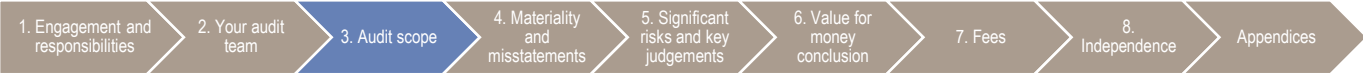
Management makes use of experts in specific areas when preparing the Organisation's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. We discuss our use of experts further in respect of independence in section 8.

| Items of account | Management's expert | Our expert |
|--|---------------------|--|
| Defined benefit pension assets and liabilities | AON Hewitt | We will use our internal actuarial team to provide assurance over the reasonableness of YPO's actuarial assumptions. |
| Property, plant and equipment valuation | NPS Humber | We will use available third party information to challenge the key valuation assumptions. |

Service organisations

International Auditing Standards define service organisations as third party organisations that provide services to the Organisation that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Organisation and our planned audit approach.

| Items of account | Service organisation | Audit approach |
|---------------------------------|-----------------------|---|
| Payroll and Treasury Management | City of Wakefield MDC | We plan to obtain assurance by understanding the process and controls that YPO have in place to assure itself that transactions are processed materially correctly. We plan to obtain evidence based on that available from YPO in support of our sample testing of transactions. |



4. MATERIALITY AND MISSTATEMENTS

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

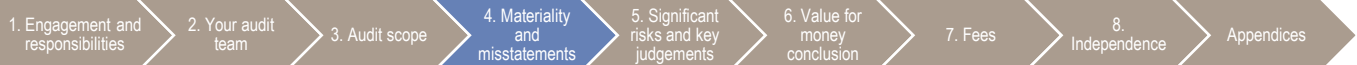
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

We accumulate misstatements identified during the audit that are other than clearly trivial, and would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.



4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Materiality levels

Headline Materiality

We have set our materiality threshold at 1.25% of the benchmark based on the 2018 audited financial statements.

Based on the 2018 financial statements we anticipate the overall materiality for 2019 to be £1.4 million.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

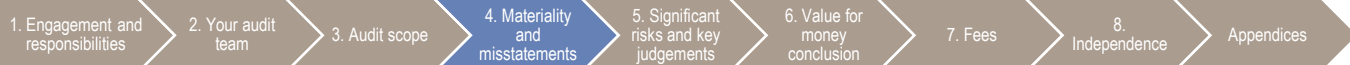
Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Our trivial threshold is a level below which we would not ordinarily report misstatements to the Audit Committee. Our proposed triviality threshold is £42,000, based on 3% of overall materiality.

Reporting to the Audit and Scrutiny Sub-Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit and Scrutiny Sub- Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).



5. SIGNIFICANT RISKS, ENHANCED RISKS, AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

5. SIGNIFICANT RISKS, ENHANCED RISKS, AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

| | Description of risk | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|--|
| 1 | Management override of controls Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. Our audit methodology incorporates this risk as a standard significant risk at all audits. Based our initial knowledge and planning discussions we do not consider this risk at YPO to be unusually high or requiring enhanced audit procedures. | ● | ○ | ● | We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. |
| 2 | Revenue Recognition There is a risk of fraud in revenue recognition due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. Due to there being a risk of fraud in revenue recognition it is presumed to be a significant risk on all audits. | ● | ● | ● | We will address this risk by performing detailed testing across each income stream focusing on the recognition of income in the correct period. Our procedures will be conducted so as to understand the policies for income recognition and to consider the risk of revenue being accounted for in the wrong accounting period. |

5. SIGNIFICANT RISKS, ENHANCED RISKS, AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

| | Description of risk | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|--|
| 3 | <p>Valuation of Property, Plant & Equipment</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. YPO carry out a full onsite valuation of their land and buildings every 5 years and a desktop review each year in between. There is a risk that the desktop valuation does not incorporate sufficient detail with regards to the assumptions and the possibility of impairment to provide materially correct valuations.</p> <p>The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> | ○ | ● | ● | <p>In relation to the valuation of property, plant & equipment we will:</p> <ul style="list-style-type: none"> Critically assess the valuer's scope of work, qualifications, objectivity and independence to carry out the Organisation's programme of revaluations; Consider whether the overall revaluation methodology used by the valuer is in line with industry practice, the CIPFA Code of Practice and YPO's accounting policies; Critically assess the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence; Assess the movement in market indices between the revaluation dates and the year end to determine whether there have been material movements over that time; Critically assess the treatment of the upward and downward revaluations in YPO's financial statements with regards to the requirements of the CIPFA Code of Practice; Critically assess the approach that YPO adopts to ensure that assets not subject to revaluation in 2019 are materially correct, including considering the robustness of that approach in light of the valuation information reported by their valuers; Test a sample of items of capital expenditure in 2019 to confirm that the additions are appropriately valued in the financial statements. |

5. SIGNIFICANT RISKS, ENHANCED RISKS, AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

| | Description of risk | Fraud | Error | Judgement | Planned response |
|---|--|-------|-------|-----------|---|
| 4 | <p>Valuation of Defined Benefit Pension Liability</p> <p>The net pension liability represents a material element of the Organisation's balance sheet. YPO is an admitted body of West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. The 2019 valuation will be available from next year.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Organisation's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Organisation's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Organisation's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Organisation's pension obligation are not reasonable or appropriate to the Organisation's circumstances. This could have a material impact to the net pension liability in 2019.</p> | ○ | ● | ● | <p>In relation to the valuation of the Organisation's defined benefit pension liability we will:</p> <ul style="list-style-type: none"> Critically assess the competency, objectivity and independence of the West Yorkshire Pension Fund's Actuary, Aon Hewitt; Liaise with the auditors of the West Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges; Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Organisation's financial statements. |

5. SIGNIFICANT RISKS, ENHANCED RISKS, AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks

| | Description of risk | Fraud | Error | Judgement | Planned response |
|---|---|-------|-------|-----------|--|
| 5 | Related Party Transactions The Organisation is required to comply with the requirements of the CIPFA Code and IAS24 to disclose its transactions with related parties. The Organisation makes judgements about who related parties are, and whether transactions are material in line with the CIPFA Code. | ● | ● | ● | We will consider the Organisation's approach to identifying its related parties, and the transactions that it has had with those related parties through the year. We will consider whether the disclosures are complete and accurate taking into account the process and the output from the Organisation's work. |
| 6 | Application of new accounting standards The 2019 accounting year is the first one where the Organisation must implement two new accounting standards which have been incorporated into the CIPFA Code, IFRS9 and IFRS15. IFRS9 relates to classification and measurement of the Organisation's financial assets and liabilities. IFRS15 relates to the recognition and measurement of the revenue income the Organisation receives from contracts with customers. The Organisation will need to consider the impact of IFRS9 and IFRS15 on its financial statements and ensure that appropriate processes are put in place so the 2019 accounts are compliant with their requirements. | ○ | ● | ● | We will consider the application of both new IFRSs as part of our testing on Financial Assets, Financial Liabilities and Revenue Income. We will engage in early discussions with the Organisation to ensure that they are aware of the advance preparations that are needed in order to produce compliant financial statements. |

6. VALUE FOR MONEY ARRANGEMENTS

Our audit approach

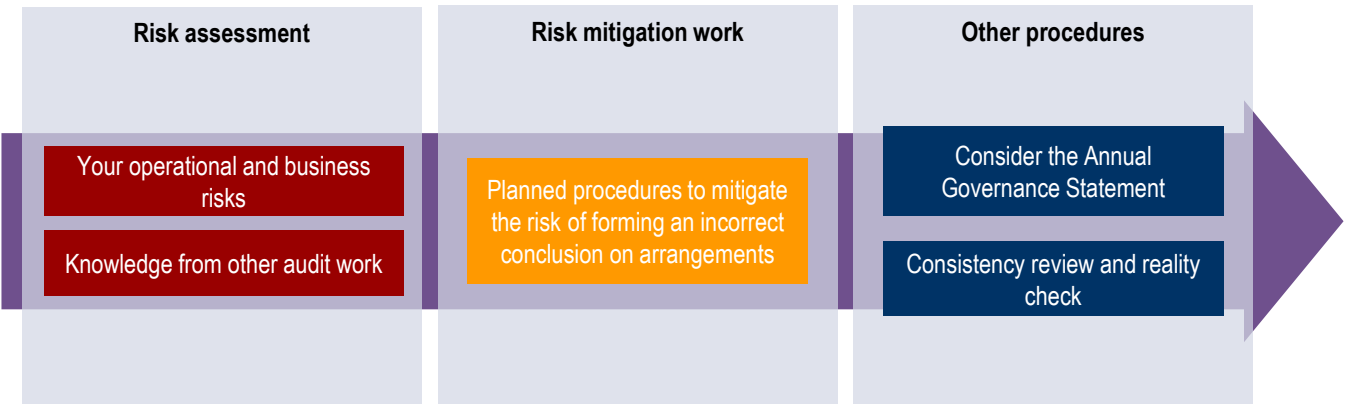
The Organisation has requested that our audit incorporates an element of Value for Money arrangements consideration.

As the audit is a non-statutory appointment there is no nationally applicable programme of work to consider. There is also no requirement to issue a Value for Money conclusion, but the Organisation has requested that we report matters that would be reported if we were required to issue such a conclusion.

In delivering the Organisation’s request we intend to carry out the following procedures:

- Consider the Organisation’s business risks that are relevant to our consideration of the arrangements;
- Consider the results of other audit work undertaken on the financial statements;
- Carry out additional work, where we identify specific risks that indicate the Organisation may not have adequate VFM arrangements;
- Consider the information reported in the Organisation’s Annual Governance Statement.

Our approach is set out in the diagram below. Where we identify Value for Money arrangements issues to be reported, these will be included in our Audit Completion Report at the end of our audit.



7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Organisation's external auditor

Our fees for the non-statutory audit of the financial statements are outlined below:

| Service | 2019 fee |
|---------------------------|----------|
| Non- statutory audit work | £23,000 |

Circumstances may arise during the audit that may significantly increase the time and resources required to complete the audit work. As a result, additional fees may be necessary. Such circumstances include but are not limited to the following:

- Changes to the timing of the audit work at your request. Timing for the audit will be agreed with you prior to its start. Changes to the timing of the Services usually require reassignment of members of staff and may involve us in significant unanticipated costs.
- Completed audit working papers (a) are not provided by you on the date requested and/or (b) are not mathematically correct and/or (c) are not in agreement with the appropriate accounting records. We will provide you with a separate listing of required schedules and deadlines prior to the start of the audit.
- The quality of draft financial statements provided are such that the review time is increased from that which would reasonably be expected or more than two drafts requiring review are provided as a consequence of late changes, omissions or processing errors by you.
- There is an insufficient or inadequate internal control environment or systems documentation, or weaknesses in the internal control structure which leads to the need for additional audit procedures to be performed.
- Significant new issues or changes arise during the course of the audit as follows:
 - a. Significant new accounting issues that require an unusual amount of time to resolve.
 - b. Significant changes in accounting policies or practices from those used in prior years.
 - c. Significant changes in financial systems during the year.
 - d. Significant changes or transactions that occur prior to the issuance of our reports.
 - e. Significant changes in your accounting personnel, their responsibilities, or their availability.
 - f. Significant changes in auditing requirements set by professional and regulatory bodies.
- Deterioration in the quality of the accounting records during the current-year engagement in comparison with the prior-year engagement.
- Failure to provide a trial balance in financial-statement format, which references to supporting detailed working papers (by general ledger account number). Failure by you to post all entries to the trial balance prior to our receiving it. Failure by you to prepare draft financial statements that agree with the trial balance and are internally referenced to supporting documentation (for notes and cash flow statements).
- A significant level of proposed audit adjustments are identified during our audit.
- Changes in audit scope caused by events that are beyond our control.

Fees for non-audit work

We have not been engaged by the Organisation to carry out any additional work over and above the organisation's non-statutory accounts audit.

Should we be engaged to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

8. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

We have not made arrangements for any of our activities as auditor to be conducted by another firm that is not a Mazars' member firm. In section 5 we have outlined the experts that we intend to use as part of our audit. We will write to these experts seeking confirmation of their independence and will report this within our Audit Completion Report.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Hitchmough in the first instance.

Prior to the provision of any non-audit services Gareth Hitchmough will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

APPENDIX A – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2019

There are two new International Financial Reporting Standards that apply to 2019 and are incorporated in the Code.

IFRS 9 Financial Instruments

This standard replaces IAS 39 and introduces significant changes to the recognition and measurement of YPO's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that YPO will continue to measure the majority of its financial assets at amortised cost. The standard applies a new 'expected credit loss' model in considering whether financial assets need impairing at the balance sheet date, and this will replace the existing approach to bad debt provision.

For Organisations that hold instruments required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund.

IFRS 15 Revenue from Contracts with Customers

The 2018/19 Code also applies the requirements of IFRS 15. This will affect YPO since the majority of their income derives from contracts with customers. IFRS15 requires the application of a five-stage model to ensure that income is only recognised when related performance obligations have been met. In most cases this may not impact on YPO's revenue recognition, but it is important that the impact is properly assessed to ensure compliant accounting policies are adopted.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2019.

Changes in future years

| Accounting standard | Year of application | Implications |
|---------------------|---------------------|--|
| IFRS 16 – Leases | 2021 | <p>We anticipate that the new leasing standard will be adopted by the Code for the 2021 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to work being required in order to identify all leases to which the Organisation is party to.</p> |

**YPO****AUDIT & SCRUTINY SUB COMMITTEE****TO BE HELD ON****1st NOVEMBER 2019****TITLE: CLOSE OF ACCOUNTS AND AUDIT 2019****REPORT OF: FINANCIAL CONTROLLER / HEAD OF FINANCE**

1. PURPOSE OF REPORT

- 1.1 To approve contents of the 2019 closedown timetable and agree to the arrangements for the 2019 Statement of Accounts.

2. BACKGROUND INFORMATION

- 2.1 The YPO Management Committee approved the continuation of an external audit on 18th March 2016, following a report by the section 151 officer of the Lead Authority. The decision was that "YPO continues to prepare, each year, a statement of accounts in accordance with the C.I.P.F.A. Code of Practice that is subject to an external audit"
- 2.2 Consequently, this will be a non-statutory audit meaning that compliance with the Accounts and Audit Regulations 2015 is not mandatory.
- 2.3 Following a tender exercise in 2019, Mazars have been appointed as our external auditors for the 2019 to 2023 financial years. Through discussions with Mazars the closedown timetable attached at appendix 1 has been provisionally agreed.

3. RECOMMENDATIONS

- 3.2 That the timetable mentioned in appendix 1 is approved.

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APPENDIX:

Appendix 1 - Closedown timetable 2019 and Audit plan key dates.

Appendix 1 – Closedown timetable 2019 and Audit plan key dates

| Task | Deadline | Responsible |
|--|-----------------|--------------------------------|
| *Interim audit commences | 14/10/2019 | MAZARS / YPO |
| *Interim audit finishes | 18/10/2019 | MAZARS / YPO |
| Close down of 2019 year end | 02/01/2020 | YPO |
| Completion of 2019 Annual Governance Statement | 17/01/2020 | YPO / WMDC |
| Receipt of Pensions data | 17/01/2020 | YPO |
| Pre audit statement agreed with s151 officer | 07/02/2020 | YPO / WMDC |
| Pre audit statement to Audit & Scrutiny Sub Committee | 14/02/2020 | Audit & Scrutiny Sub Committee |
| *Production of KPMG working file | 09/03/2020 | YPO |
| *Audit commences (checking process) | 16/03/2020 | MAZARS / YPO |
| *Audit finishes (checking process) | 27/03/2020 | MAZARS / YPO |
| Letter of representation & report to those charged with governance | 30/04/2020 | MAZARS / YPO |
| Audited statement of accounts agreed with s151 officer | 30/04/2020 | YPO / WMDC |
| *Audit opinion and VFM conclusion | 30/04/2020 | MAZARS |
| Approval of the audited statement of accounts | 03/07/2020 | Scrutiny & Audit Sub Committee |

*All audit dates are provisional at this stage as we are in the process of confirming these with Mazars

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