

Your Ref.

Our Ref

**Please Reply To Kayley Sykes**  
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Date 26 October 2017

**Merran McRae - Chief Executive**

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Typetalk calls welcome

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

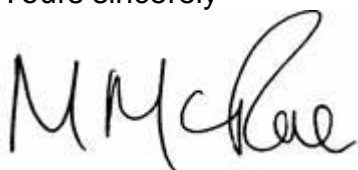
Dear Member

**YPO AUDIT AND SCRUTINY SUB-COMMITTEE – FRIDAY, 3 NOVEMBER 2017**

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, 3 November 2017 in the YPO Headquarters** to consider the items set out in the agenda attached.

**Please note that a training session entitled 'External & Internal Audit Relationship' will be held prior to the meeting at 10.00am'.**

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, 3 November 2017**

**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 15 September 2017. (Pages 1 - 3)
6. Internal Audit Plan Progress 2017. (Pages 5 - 10)
7. Planning Process for next Internal Audit Plan. (Pages 11 - 13)
8. Year End Closedown Timetable. (Pages 15 - 17)
9. External Audit Plan. (Pages 19 - 36)
10. Exclusion of the Public and Press  
“That the public and press be excluded from the meeting during consideration of agenda items 11 and 12 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**

11. Risk Management Update. (Pages 37 - 38)
12. IT Programme Update. (Pages 39 - 47)
13. Date and Time of Next Meeting.  
The next meeting of the YPO Audit and Scrutiny Sub-Committee will be held on 16 February 2018 at 10.30am.

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**YORKSHIRE PURCHASING ORGANISATION**

**AUDIT & SCRUTINY SUB-COMMITTEE**

**FRIDAY 15<sup>TH</sup> SEPTEMBER 2017**

**Present:**      The Chair: Councillor Warburton (Bradford)

Councillors: Vjestica (Rotherham), Barnard (Barnsley), Pillai (Calderdale), Scullion (Calderdale), Asif (Kirklees)

<b>1.</b>	<b>CHAIR'S INTRODUCTION &amp; WELCOME</b>
	Councillor Warburton welcomed all parties to the meeting.
<b>2.</b>	<b>ACCEPTANCE OF APOLOGIES FOR ABSENCE</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Byron (Knowsley), Cole (Doncaster), Sweeney (Wigan), Mather (Kirklees), Dadd (North Yorkshire), Waller (York) and Wiseman (St Helens).
<b>3.</b>	<b>MEMBER DECLARATION OF INTEREST</b>
	No declarations of interest were made.
<b>4.</b>	<b>URGENT ITEMS</b>
	No urgent items were raised by Members.
<b>5.</b>	<b>PREVIOUS MINUTES (AUDIT &amp; SCRUTINY SUB COMMITTEE)</b>
	The minutes of the YPO Audit & Scrutiny Sub-Committee held on 16 <sup>th</sup> May 2017 were approved as a correct record.
<b>6.</b>	<b>CUSTOMER SATISFACTION SURVEY</b>
	<p>Members gave consideration to a report and presentation on the Customer Satisfaction Survey delivered by Jo Marshall, Executive Director.</p> <p>The Executive Director shared the results of both the YPO Customer Survey and the ICS Survey, and gave an overview of the customers the surveys were sent to.</p> <p>Members asked a number of questions and Officers provided responses to these.</p> <p>Members thanked Jo for her presentation.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>7.</b>	<b>INTERNAL AUDIT PLAN PROGRESS</b>
	Consideration was given to a report which detailed the Internal Audit's progress and work during the period May to September 2017 and noted the contents therein.

	<p>Carl Tweed, Internal Audit Manager from Wakefield Council, highlighted where action has been taken by YPO since the last meeting, and noted work priorities.</p> <p>Councillor Warburton thanked Carl Tweed for all his hard work for YPO over the years and wished him well in retirement.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>8.</b>	<b>EXCLUSION OF THE PUBLIC &amp; PRESS</b>
	<p><b>Resolved</b> – That the public and press be excluded from the meeting during consideration of agenda items 9 to 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>
<b>9.</b>	<b>IT PROGRAMME UPDATE</b>
	<p>Consideration was given to the IT Programme Update report which provided Members with an update on the progress of the implementation of the ERP Business Case.</p> <p>The update contained a highlight report which documented the progress between April and July 2017.</p> <p>Questions were raised around the data and progress, and Paul Smith, Executive Director, provided responses.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<b>10.</b>	<b>STOCK LOSSES</b>
	<p>Consideration was given to a report of the Executive Director entitled Stock Losses.</p> <p>The Executive Director talked Members through the different types of Stock Losses we have, and the problems they cause.</p> <p>The report recommended that the Committee note stock losses year on year as part of the organisations reporting requirements, and that the actions mentioned above will be constantly reviewed throughout 2017 and into 2018.</p> <p>Members asked for clarity around some aspects of the report, and officers provided responses on these.</p> <p><b>Resolved</b> – (1) That the report be noted. It was agreed it will be arranged for a Warehouse tour to take place after the next Audit &amp; Scrutiny Sub Committee Meeting on 3<sup>rd</sup> November 2017.</p>
<b>11.</b>	<b>INTERNAL AUDIT ACTION UPDATE</b>
	<p>Consideration was given to a report which provided an update as to the progress made towards actions resulting from internal audits completed at YPO, as part of the Annual Audit Plan by Wakefield Council's Internal Audit.</p>

	<b>Resolved</b> – (1) That the progress made in implementing internal audit actions be noted.
<b>12.</b>	<b>SALES ANALYSIS</b>
	<p>Consideration was given to a report of the Executive Director entitled Sales Analysis.</p> <p>The purpose of the report being to provide the Audit and Scrutiny Sub Committee Members with a summary of business year to date, and provide context around the headline figures.</p> <p><b>Resolved</b> – (1) That the Sales Analysis year to date be noted.</p>
<b>13.</b>	<b>COST SAVING UPDATE</b>
	<p>Members considered a report of the Managing Director entitled Cost Saving Update.</p> <p>Paul Smith, Executive Director, talked Members through the report, which updated Members of the activities of the organisation since the last meeting in relation to the YPO Future Proofing Programme and to give an overview of the forthcoming activities, challenges and goals.</p> <p><b>Resolved</b> – (1) That members note the proposed actions being taken by the Board and will continue to receive regular updates on progress.</p>
<b>14.</b>	<b>FINANCIAL UPDATE</b>
	<p>A report of Wakefield Council's Head of Internal Audit and Risk entitled Financial Update was reviewed by Members.</p> <p><b>Resolved</b> – (1) That Members noted the content of the report.</p>
<b>15.</b>	<b>DATE AND TIME OF NEXT MEETING</b>
	<p><b>Resolved</b> – (1) That the next meeting of the YPO Audit &amp; Scrutiny Sub Committee proposed will be held on 3<sup>rd</sup> November 2017.</p>

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	<p style="text-align: center;"><b>YPO</b></p> <p style="text-align: center;"><b>AUDIT &amp; SCRUTINY SUB-COMMITTEE</b></p> <p style="text-align: center;"><b>TO BE HELD ON</b></p> <p style="text-align: center;"><b>3<sup>RD</sup> NOVEMBER 2017</b></p>
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**TITLE: PROGRESS ON THE 2017 INTERNAL AUDIT PLAN**

**REPORT OF: INTERIM HEAD OF INTERNAL AUDIT & RISK**

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## **1      PURPOSE OF REPORT**

- 1.1 This report is produced by the Interim Head of Internal Audit & Risk to provide Members with details of Internal Audit's performance and work since the last meeting of the Audit & Scrutiny Sub-Committee on the 15<sup>th</sup> September 2017.

## **2      BACKGROUND INFORMATION**

- 2.1 The report attached at Appendix A records details of audit work undertaken, and reports issued, between January 2017 and October 2017.
- 2.2 In line with agreed protocols, a further progress report will be submitted to the next meeting of the Audit & Scrutiny Sub-Committee.

## **3      STRATEGIC IMPLICATIONS**

- 3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the 2017 Internal Audit Plan link to various YPO strategic risks.

## **4      FINANCIAL IMPLICATIONS**

- 4.1 There are no specific financial implications associated with this report. The cost of the audit work is met from the 2017 budget approved by YPO Members.

## **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 Organisation's financial affairs.

## **6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

## **7 RISK IMPLICATIONS**

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the Organisation's 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 comment on and endorse the Internal Audit Progress Report attached as Appendix A to this report.

### **Contact Officer:**

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Telephone No: 01924 306319  
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# **Internal Audit Progress Report As At October 2017**

**REPORT OF:**

Julie Gill, Interim Head of Internal Audit & Risk  
(Wakefield Council)

Email address: [jgill@wakefield.gov.uk](mailto:jgill@wakefield.gov.uk)

## PURPOSE OF REPORT

1. The purpose of this report is to:
  - 1.1 Present to the YPO Audit & Scrutiny Sub-Committee details of Internal Audit's performance and work since the last meeting of the Audit & Scrutiny Sub-Committee on the 15<sup>th</sup> September 2017.
  - 1.2 Highlight any significant issues arising from audit work and the current position on implementing agreed actions.
  - 1.3 Consider future audit work.

## PROGRESS ON THE 2017 AUDIT PLAN

2. Five Internal Audit reports have been issued so far in 2017. Two of these reports were discussed at the Audit Sub-Committee on the 10<sup>th</sup> February 2017, namely:
  - Main Financial Systems 2016. (The nine main financial systems are covered over a three-year cycle. Ordering & Creditors – Working Expenses Including Hired Carriers, Ordering & Creditors – Business Income and Asset Management were subject to a detailed review in 2016.)
  - Electronic Card Payments.

One of these reports was discussed at the Audit & Scrutiny Sub-Committee on the 19<sup>th</sup> May 2017, namely:

- Fleet Replacement and Third Party Logistics.

One of these reports was discussed at the Audit & Scrutiny Sub-Committee on the 15<sup>th</sup> September 2017, namely:

- Business Performance Management.

3. One Internal Audit report has been issued since the last meeting of the Audit & Scrutiny Sub-Committee, as shown below:

Report	Audit Opinion in Report / Main Messages in Report	Actions Taken By YPO
Electronic Card Payments Follow Up – 20/09/17	<p><b>Mostly Implemented</b></p> <p>Actions have been fully implemented in relation to many of the issues raised in the original audit. However, there are a couple of actions still requiring attention, namely:</p> <ul style="list-style-type: none"> <li>• Portable media encryption should be introduced as soon as possible, and supported</li> </ul>	The completed action plan is not due to be returned until the 17 <sup>th</sup> November 2017. Therefore, written details of the actions taken by YPO will be included in the next Internal Audit Progress Report.

	<p>within security policies. This is currently proposed but not yet completed.</p> <ul style="list-style-type: none"> <li>• The Payment Card Industry Data Security Standards self-assessment exercise is now dated. A repeat exercise or similar needs consideration within the IT security review.</li> </ul>	
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4. As at the date of producing this report, the following Internal Audit work is ongoing:
  - 4.1 Main financial systems annual review and testing 2017. (The nine main financial systems are covered over a three-year cycle. Debtors – Business Income, Debtors – Non-Business Income and Payroll are subject to a detailed review in 2017.)
  - 4.2 IT Change Control.
  - 4.3 Workforce Skills.
  - 4.4 Limited Company.
  - 4.5 Consultation / advice-type support as requested to the Link programme relating to the installation of an ERP (enterprise resource planning) system.
  - 4.6 Members are aware of an incident at YPO. Resources have been re-prioritised to support this investigation.
5. In terms of Internal Audit's performance against its own local Key Performance Indicators, the position as at October 2017 is summarised below:
  - 5.1 A calendar year plan was agreed covering the period 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017. In view of the additional resources incurred as a result of investigating the incident at YPO referred to in paragraph 4.6, it has been agreed with YPO senior management that the proposed audit on Anti-fraud and bribery arrangements will now be included in the 2018 Internal Audit Plan. The Internal Audit Service is on target to deliver jobs in line with this revised plan. As in previous years, it is likely that a couple of jobs (Sales Forecast / Marketplace and Procurement Services) will be ongoing at the year-end. These jobs will then be completed as a priority in the first quarter of 2018.
  - 5.2 Four client surveys have been issued so far in 2017. All of them have been returned, three with an overall opinion of 'Very Good' (Main Financial Systems 2016, Fleet Replacement and Third Party Logistics, and Business Performance Management) and one with an overall opinion of 'Good' (Electronic Card Payments).

- 5.3 All Internal Audit work is subject to a quality control process, including formal review of work by the appropriate level of audit management.

### **WORK PRIORITIES FOR THE NEXT FEW MONTHS**

6. The first priority for the remainder of 2017 will be the completion of the ongoing audits.

Consultancy / advice-type support to the Link programme will continue as requested.

The intention is to start the remaining audits from the 2017 Internal Audit Plan on Sales Forecast / Marketplace and Procurement Services in December 2017. These audits will then be completed as a priority in the first quarter of 2018.

### **OUTSTANDING REPLIES TO AUDIT REPORTS**

7. There are no replies outstanding in respect of recent audit reports.

	<p style="text-align: center;"><b>YPO</b></p> <p style="text-align: center;"><b>AUDIT &amp; SCRUTINY SUB-COMMITTEE</b></p> <p style="text-align: center;"><b>TO BE HELD ON</b></p> <p style="text-align: center;"><b>3<sup>RD</sup> NOVEMBER 2017</b></p>
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**TITLE: PLANNING PROCESS FOR THE NEXT ANNUAL INTERNAL AUDIT PLAN**

**REPORT OF: INTERIM HEAD OF INTERNAL AUDIT & RISK**

**1 PURPOSE OF REPORT**

- 1.1 This report is produced by the Interim Head of Internal Audit & Risk to provide Members with information relating to the next annual Internal Audit Plan. It outlines what the planning process will be, and also includes details of potential auditable areas.

**2 BACKGROUND INFORMATION**

- 2.1 The Internal Audit function is provided to YPO by Wakefield Council as the Lead Authority, under the overall responsibility of the Assistant Chief Executive – Resources & Governance, being the statutory s151 Officer to YPO. The overall strategy for provision of the Internal Audit service is specified within the Annual Internal Audit Plan 2017/18, approved by Wakefield Council's Audit Committee on the 10<sup>th</sup> April 2017. It provides the basis for planning audit work at YPO. The YPO Annual Internal Audit Plan details the individual audits to be undertaken within the overall strategy.
- 2.2 Each calendar year the YPO Annual Internal Audit Plan is prepared by the Head of Internal Audit & Risk, and submitted to the Assistant Chief Executive – Resources & Governance (Wakefield Council) and Managing Director (YPO) for approval. It is then submitted to the YPO Board of Directors for ratification. The YPO Annual Internal Audit Plan is presented to the Audit & Scrutiny Sub-Committee for consideration and comment and Management Committee for Member approval.
- 2.3 In formulating the plan, Internal Audit consults with YPO Board Members, the s151 Officer, External Audit and YPO Members as deemed appropriate.
- 2.4 Identification and prioritisation of auditable areas is based on a number of factors, including financial values, significance of the area linked to achieving YPO strategic objectives, knowledge of risk management arrangements, management wishes and time since the last Internal Audit review.
- 2.5 In accordance with the procedure outlined above, the YPO Audit & Scrutiny Sub-Committee will have the opportunity to comment on the Draft Annual Internal Audit Plan at the next meeting. For now, the following is a list of areas of potential auditable activity which is presented for Member consideration and comment:

- Main financial systems annual review and testing.

There are nine main financial systems which are covered over a three-year cycle, namely Ordering and Creditors – Working Expenses Including Hired Carriers, Ordering and Creditors – Business Creditors, Main Accounting System, Payroll, Debtors – Business Income, Debtors – Non-Business Income, Budgetary Control, Asset Management and Stock Control.

- New systems / initiatives being developed.
- Anti-fraud and bribery arrangements / testing.
- Performance Management.
- Business Planning.
- Risk Management.
- Specific strategic risks not covered above.
- Risk based audits on areas of operational activity.
- Ongoing audit work from previous year.
- Follow up on work undertaken and reported previously.
- Input to YPO Committee function.
- Liaison, consultancy and advice.
- Investigate any areas of suspected fraud / irregularity.

### **3 STRATEGIC IMPLICATIONS**

- 3.1 The Internal Audit work planning process includes involvement at a strategic level within YPO, including liaison with Members and senior management plus consideration of key strategic risks associated with achievement of the Organisation's key business objectives.

### **4 FINANCIAL IMPLICATIONS**

- 4.1 The resource required to deliver the Plan and associated cost to YPO will be determined as part of the more detailed planning process and incorporated within future reports to Members.

### **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 Organisation's financial affairs.



## **6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

## **7. RISK IMPLICATIONS**

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the Organisation's 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 RECOMMENDATIONS**

- 8.1 That Members consider this report and:
- a) comment on the extent to which audit work is being planned with due regard to major risks, areas of significant financial effect and the need to cover the range of the service, and
  - b) suggest any specific areas to consider including within the Plan, based on Member assurance requirements.

### **CONTACT OFFICER:**

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**YPO**

**AUDIT & SCRUTINY SUB COMMITTEE**

**TO BE HELD ON**

**3<sup>RD</sup> NOVEMBER 2017**

**TITLE: CLOSE OF ACCOUNTS AND AUDIT 2017**

**REPORT OF: FINANCIAL CONTROLLER / HEAD OF FINANCE**

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## **1. PURPOSE OF REPORT**

- 1.1 To approve contents of the 2017 closedown timetable and agree to the arrangements for the 2017 Statement of Accounts.

## **2. BACKGROUND INFORMATION**

- 2.1 The YPO Management Committee approved the continuation of an external audit on 18<sup>th</sup> 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 2016, KPMG were appointed as our external auditors for the 2016 and 2017 financial years. Through discussions with KPMG the closedown timetable attached at appendix 1 has been agreed.

## **3. STRATEGIC IMPLCATIONS**

- 3.1 There are no specific strategic implications associated with this report.

## **4. LEGAL IMPLICATIONS**

- 4.1 There are no specific legal implications associated with this report.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 There are no specific financial implications associated with this report.

## **6. RECOMMENDATIONS**

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

**SERVICE DIRECTOR: PAUL SMITH, EXECUTIVE DIRECTOR**

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**CONTACT OFFICER: STEVEN HALL, HEAD OF FINANCE**

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**APPENDIX:**

*Appendix 1 - Closedown timetable 2017 and Audit plan key dates*

**Appendix 1 – Closedown timetable 2017 and Audit plan key dates**

<b>Task</b>	<b>Deadline</b>	<b>Responsible</b>
Interim audit commences	20/11/2017	KPMG / YPO
Interim audit finishes	01/12/2017	KPMG / YPO
Close down of 2017 year end	22/12/2017	YPO
Completion of 2017 Annual Governance Statement	13/01/2018	YPO / WMDC
Receipt of Pensions data	13/01/2018	YPO
Pre audit statement agreed with s151 officer	09/02/2018	YPO / WMDC
Pre audit statement to Scrutiny & Audit Sub Committee	16/02/2018	Scrutiny & Audit Sub Committee
Production of KPMG working file	02/03/2018	YPO
Audit commences (checking process)	12/03/2018	KPMG / YPO
Audit finishes (checking process)	23/03/2018	KPMG / YPO
Letter of representation & report to those charged with governance	11/04/2018	KPMG / YPO
Audited statement of accounts agreed with s151 officer	11/04/2018	YPO / WMDC
Audit opinion and VFM conclusion	21/04/2018	KPMG
Approval of the statement of accounts	25/05/2018	Scrutiny & Audit Sub Committee

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**YPO**  
**AUDIT & SCRUTINY**  
**SUB-COMMITTEE**  
**TO BE HELD ON**  
**3<sup>rd</sup> NOVEMBER 2017**

**TITLE: EXTERNAL AUDIT PLAN**

**REPORT OF: FINANCIAL CONTROLLER**

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## **1. PURPOSE OF REPORT**

1.1 To present to members the 2017 external audit plan.

## **2. BACKGROUND INFORMATION**

2.1 Attached at Appendix A is the external audit plan, prepared by KPMG, for the 2017 financial year.

2.2 The plan sets out the audit approach to be undertaken by our external auditors and the impact of key financial statement risk areas.

2.3 The plan also details the audit deliverables and timeline, along with confirming the audit fees which are a reduction from previous years.

## **3 STRATEGIC IMPLICATIONS**

3.1 There are no strategic implications for this report.

## **4 FINANCIAL IMPLICATIONS**

4.1 There are no additional financial implications on top of the external audit fee of £23K.

## **5 LEGAL IMPLICATIONS**

5.1 It is not a mandatory requirement of YPO to have an external audit as per the Accounts and Audit Regulations 2015. However, it was agreed by our Management Committee in 2016 that we will continue to prepare, each year, a statement of accounts in accordance with the C.I.P.F.A Code of Practice which will be subject to a non-statutory external audit

## **6 EQUALITY IMPLICATIONS**

6.1 This report does not have any impact on Equality and Diversity.

## **7 RISK IMPLICATIONS**

7.1 The validity and accuracy of the statement of accounts are at risk if the audit plan is not adhered to and an unqualified opinion not received.

## **8 RECOMMENDATION**

8.1 That members note and comment on the audit plan.

### **SERVICE DIRECTOR: PAUL SMITH, EXECUTIVE DIRECTOR**

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41 Industrial Park  
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### **CONTACT OFFICER: MATTHEW HIRST, FINANCIAL CONTROLLER**

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## **APPENDIX:**

*Appendix 1 – External Audit plan 2017*



# **Yorkshire Purchasing Organisation**

## **Audit planning memorandum**

Year ending 31 December 2017

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# 2016 Audit Strategy

## Introduction and audit approach

### YOUR KPMG CONTACTS



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### PURPOSE OF THIS REPORT

This document has been prepared for presentation to the YPO **Audit Committee**.

It sets out our proposed approach to the non-statutory audit of the financial statements of YPO for the year ending 31 December 2017.

In particular, this paper:

- describes our overall strategy and scoping;
- our approach to materiality; and
- identifies the significant risks and areas of focus to be addressed by our audit.

We have also included details of the timeline of our audit, key members of our audit team and set out the framework for the agreement of audit fees.

In addition, this document addresses the provisions of International Standard on Auditing (UK and Ireland) ('ISA') 260 – 'Communication of audit matters with those charged with governance' (see Appendix 1 for a summary of mandated communications with the Audit Committee).

### THE PURPOSE OF OUR NON-STATUTORY AUDIT

#### The purpose of our audit

The main purpose of our non-statutory audit, which is carried out in accordance with International Standards on Auditing (ISAs) issued by the Auditing Practices Board, is to issue a report to YPO which expresses our opinion on whether the financial statements:

- give a true and fair view of the state of the Yorkshire Purchasing Organisation's affairs as at 31 December 2017 and of its surplus for the year then ended; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### OUR RESPONSIBILITIES AS AUDITOR

#### Our responsibilities as auditor

In relation to the non statutory audit we will provide an independent audit opinion in accordance with ISA (UK and Ireland) on YPO's financial statements for the year ending 31 December 2017. Our procedures are not designed to detect or disclose errors or irregularities which are not material in relation to YPO's financial statements.

To a certain extent, the contents of this report include general information which has been prepared by, or is based on discussions with, management. Except to the extent necessary for the purposes of our engagement, this information has not been independently verified.

## AUDIT RISKS

The key areas of our focus will be around the following areas:

- Revenue recognition, including fraud risk; and
- Risk of management override of controls
- Significant changes in the pension liability due to LGPS Triennial Valuation

We will continue to scrutinise any unusual accounting transactions which materially impact the financial statements.

Page 4

## TIMELINE, APPROACH AND DELIVERABLES

The timeline and approach is similar to the prior year.

Our interim audit will take place in November 2017, with the final audit taking place in March 2018.

Page 7

## MATERIALITY

The basis of setting materiality has remained consistent, using revenue as a benchmark.

Materiality has been set at £2 million.

KPMG will report all individual errors in excess of £100,000.

Page 5



## VALUE FOR MONEY

We will use the NAO Code of Audit Practice, published April 2015, to inform our assessment of YPO's value for money arrangements.

We will report the outcomes of our assessment to the Audit Committee alongside our report on YPO's financial statements.

Page 6

## INDEPENDENCE

In accordance with ISA 260 'Communication of audit matters with those charged with governance' and the APB Ethical Standards, we are required to communicate to you all relationships between KPMG and YPO that may be reasonably thought to have bearing on our independence both:

- At the planning stage; and
- Whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved by the Board as part of agreeing any engagement to ensure transparency in our relationship.

Page 13 contains our confirmation of independence and any other matters relevant to our independence.

Significant risk	What is the risk?	How is the risk addressed through our audit?
<b>Fraud risk from revenue recognition</b>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We have not identified any indications of fraudulent financial reporting but the nature of YPO's business means that we are unable to rebut this presumption.</p>	<p>We will consider the incentives and opportunities to misstate revenue and focus our testing in these areas.</p> <p>We will carry out appropriate controls testing and substantive procedures to address the risk. This includes:</p> <ul style="list-style-type: none"> <li>• Attendance at stocktakes</li> <li>• Testing of the bad debt provision and aged debt disclosures</li> <li>• Testing a sample of contract rebates to supporting evidence</li> </ul>
<b>Risk of management override of controls</b>	<p>Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside YPO's normal course of business, or are otherwise unusual.</p>
<b>Significant changes in the pension liability due to LGPS Triennial Valuation</b>	<p>During the year, the Local Government Pension Scheme for West Yorkshire Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension liability numbers to be included in the financial statements for 2017 will be based on the output of the triennial valuation rolled forward to 31 December 2017. For 2018 and 2019 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by West Yorkshire Pension Authority, who administer the Pension Fund.</p>	<p>As part of our audit, we will agree any data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.</p> <p>We will also liaise with the Pension Fund Audit Team (the Pension Fund's Auditors) where this data was provided by the Pension Fund on the Authority's behalf to check the completeness and accuracy such data.</p>

## AUDIT OVERVIEW

# MATERIALITY AND REPORTING OF AUDIT DIFFERENCES

Our materiality level, set at £2m, represents the level at which we think misstatements will reasonably influence users of YPO's financial statements.

Our audit work is planned to detect errors that are material to the accounts as a whole

### Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures

Materiality has been calculated based on revenue for the period in the forecast results for the year per the August management accounts.

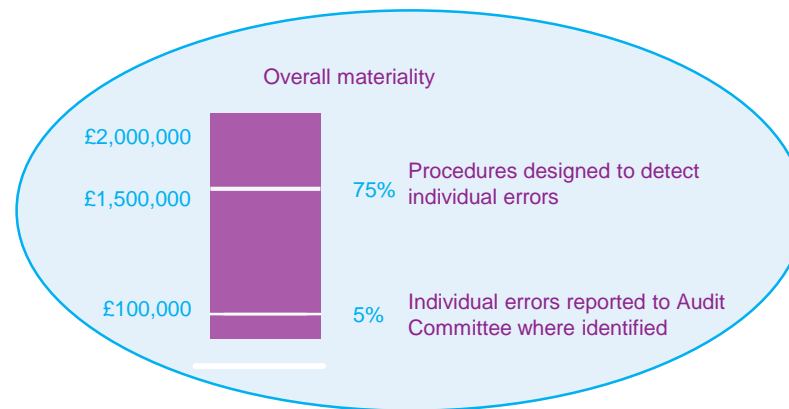
Materiality has been set at £2m which is 1.7% of forecast revenue. This is similar to the 2016 value.

We design our procedures to detect errors at a lower level of precision, i.e. £1.5m, and we have some flexibility to adjust this level downwards for items such as judgemental items.

We will report identified errors greater than £100,000 to the Audit Committee.

To comply with auditing standards, if applicable, the following three types of audit differences will be presented to the Audit Committee:

- adjusted audit differences
- unadjusted audit differences
- disclosure differences (adjusted and unadjusted)



We note this is not a mandatory required but an area you have requested as part of your requirements and our approach will to use the guidance issued by the NAO to the Local Government sector.

### Background to approach to VFM work.

We will use the NAO Code of Audit Practice, published April 2015, to inform our assessment of YPO's value for money arrangements. This requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The process is shown in the diagram below and is based on a single criterion supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Joint Committee. The diagram to the right shows the details of these criteria.

We will report the outcomes of our assessment to the Audit Committee alongside our report on the financial statements.

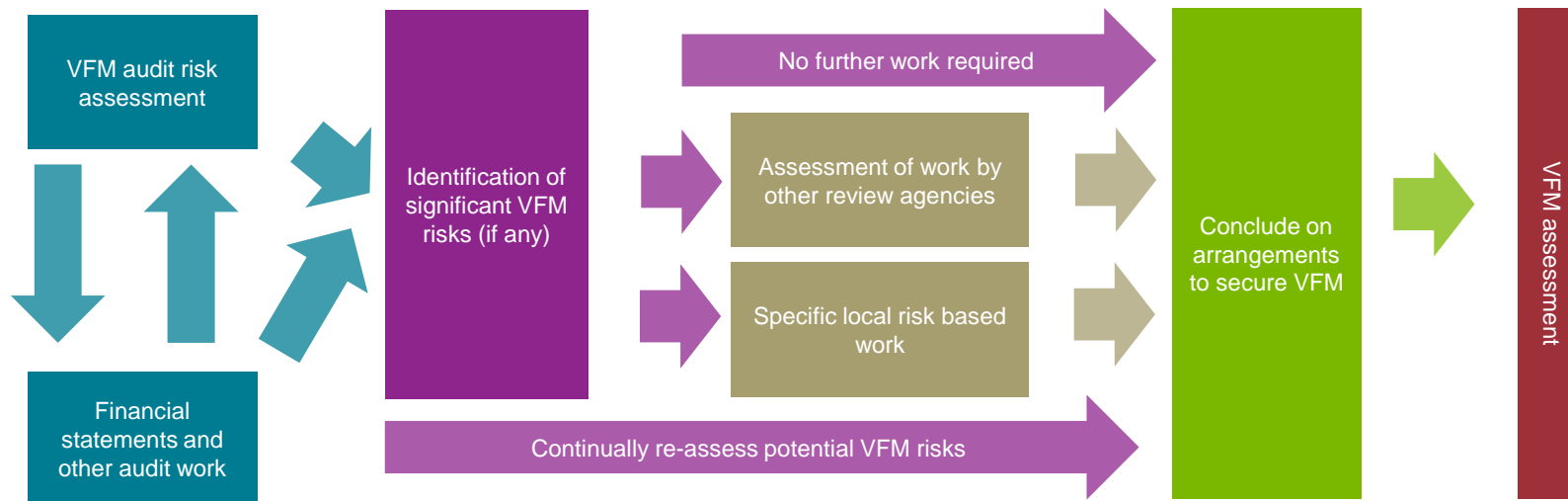
### Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed  
decision  
making

Sustainable  
resource  
deployment

Working  
with  
partners  
and third  
parties



## AUDIT OVERVIEW

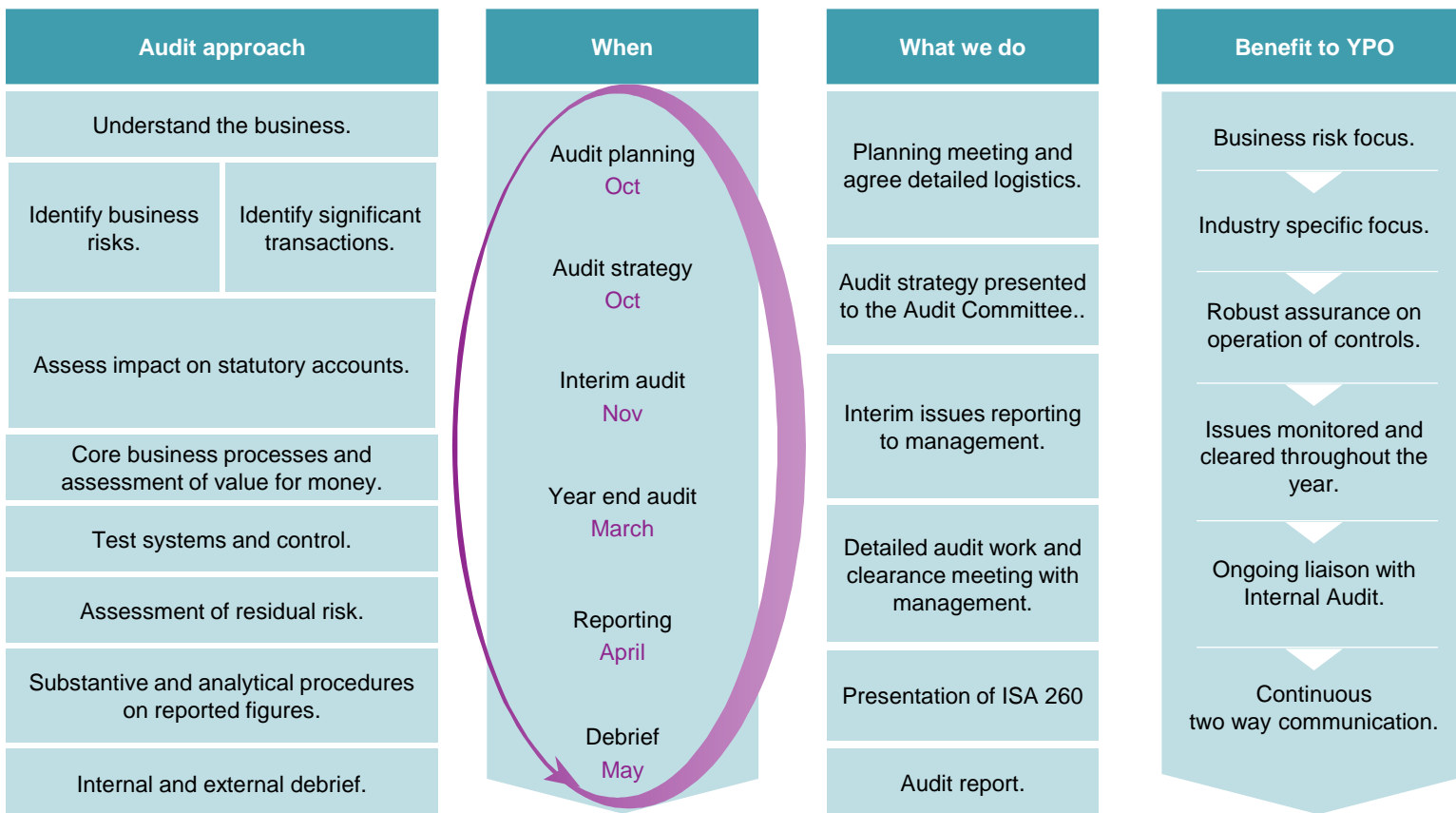
# PLANNED AUDIT TIMELINE

We use a risk based audit approach to identify the key risks affecting YPO.

This will be based on our sector experience and our planning meetings with the YPO management. Our audit work will therefore focus on your key risk areas.

### Overview

Our approach to the non-statutory audit is based on understanding and assessing YPO's structures and processes for decision-making, accountability, control and behaviours and weaknesses and identifying those risks that can affect the financial statements. We then carry out audit procedures to address any identified risks and weaknesses. We assess where the greatest risk of misstatement exists and how effective internal controls are at mitigating these risks.





## AUDIT OVERVIEW

# RESPONSIBILITY IN RELATION TO FRAUD

We are required to consider fraud and the impact that this has on our approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities	KPMG's identification of fraud risk factors	KPMG's response to identified fraud risk factors	KPMG's identified fraud risk factors
<ul style="list-style-type: none"> <li>■ Adopt sound accounting policies.</li> <li>■ With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.</li> <li>■ Establish proper tone/culture/ethics.</li> <li>■ Require periodic confirmation by employees of their responsibilities.</li> <li>■ Take appropriate action in response to actual, suspected or alleged fraud.</li> <li>■ Disclose to Audit Committee and auditors: <ul style="list-style-type: none"> <li>– any significant deficiencies in internal controls.</li> <li>– any fraud involving those with a significant role in internal controls.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Review of accounting policies.</li> <li>■ Results of analytical procedures.</li> <li>■ Procedures to identify fraud risk factors.</li> <li>■ Discussion amongst engagement personnel.</li> <li>■ Enquiries of management, Audit Committee, and others.</li> <li>■ Evaluate broad programmes and controls that prevent, deter, and detect fraud.</li> </ul>	<ul style="list-style-type: none"> <li>■ Accounting policy assessment.</li> <li>■ Evaluate design of mitigating controls.</li> <li>■ Test effectiveness of controls.</li> <li>■ Address management override of controls.</li> <li>■ Perform substantive audit procedures.</li> <li>■ Evaluate all audit evidence.</li> <li>■ Communicate to Audit Committee and management.</li> </ul>	<ul style="list-style-type: none"> <li>■ Whilst we consider the risk of fraud to be low around the Group, we will monitor the following areas throughout the year and adapt our audit approach accordingly. <ul style="list-style-type: none"> <li>– Revenue recognition</li> <li>– Purchasing income</li> <li>– Management control override</li> <li>– Manipulation of results to achieve targets and expectations of stakeholders</li> </ul> </li> </ul>

In our view the most important thing is that the team consists of the right people.

Your team has the relevant experiences, commitment, knowledge, time and personality to continue working with you in a proactive and positive way.

### Your audit team

Selecting the right team with relevant expertise and experience is crucial to a successful working partnership.

Our audit team has the required skills and experience and combines:

- extensive experience in local government and the local marketplace;
- a genuine commitment to continuity of service; and
- a desire to respond quickly and proactively to requests for information and advice.

### The key members of the audit team are:

**Rashpal** will continue to lead our audit service to YPO. He will be responsible for ensuring that we provide the highest quality of audit and that your needs and expectations are met. He will be the key point of contact for the Audit Committee.

**Matthew** will be responsible for the overall management of the audit with a particular focus on the key risk areas and communication with Audit Committee and management. He will be responsible for directing and reviewing the fieldwork, supervising the audit team on a day-to-day basis and raising key issues on the audit with management as they arise.

**Rachael** will lead the team on site during our interim and final audit visits. She will liaise primarily with the finance team and will be the single point of contact for audit queries.

Contact details are provided on page 1.

**Rashpal Khangura**  
Director

**Matthew Moore**  
Manager

**Rachael Whittaker**  
Assistant Manager

Our fee for the audit is £23,135 including £2,500 for your value for money conclusion. The proposed fee is in line with the agreed tender.

### Reporting of fee information

Fee information covering both audit and non audit services will be collated during the year and presented at the Audit Committee in April.

### Basis of fee information

These fees have been agreed on the basis that:

- draft statutory accounts are presented to us for audit;
- supporting schedules to figures in the accounts are supplied;
- all books and records are made available to us;
- a trial balance together with reconciled control accounts are presented to us;
- all deadlines agreed with us are met;
- we find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- management will be available to us as necessary throughout the audit process; and
- there will be no changes in deadlines or reporting requirements.

We have prepared a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

# APPENDICES

- 1 Mandatory Communications
- 2 Auditor Independence
- 3 Quality control procedures

# Mandatory Communications

During the course of our audit we plan to issue a number of reports which complement the year-round process of formal and informal communication which takes place between KPMG and senior management.

As always, our reports aim to be balanced, clear and concise with issues appropriately prioritised.

At the same time, our communication is also open, both with management and within KPMG, and ensures that the knowledge we have gained from the audit is captured from our teams and consolidated into valuable reporting.

Matters to be communicated	Method of communication
■ Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)	This paper – page 13
■ The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)	This paper and engagement letter
■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)	In the event of such matters of significance we would expect to communicate with the Audit Committee throughout the year. Formal reporting will be included in our ISA 260 report for the Audit Committee meeting in April.
■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)	
■ Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)	
■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)	
■ The auditor's view on valuations and related disclosures (ISA 260)	
■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)	
■ Expected modifications to the auditor's report (ISA 260)	
■ Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240)	
■ Any other information included in the annual report and accounts that appears materially misstated based on the auditor's knowledge (ISA 720A). To be reported by exception, or that there is nothing to report (ISA 700).	

### Auditor independence

ISA 260 requires us to communicate to the Audit Committee on any matters which may reasonably be thought to bear on our independence, set out the safeguards in place in relation to these matters and confirm that we are independent.

KPMG is committed to being, and being seen to be independent. As part of our ethics and independence policies, all Audit Directors, KPMG Partners and staff annually confirm their compliance with our ethics and independence manual, including in particular that they have no prohibited shareholdings. Our ethics and independence manual is fully consistent with the professional practice rules of the Institute of Chartered Accountants in England and Wales, by whom we are regulated for audit purposes.

In addition, we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

Further safeguards include regular review of the composition of the audit team, including rotation in accordance with the relevant regulations. Any new engagement undertaken for YPO is subject to acceptance procedures, requiring consultation with Rashpal Khangura as Audit Partner.

To facilitate our independence in the services we provide to you, KPMG has created a database of all global listed clients, known as Sentinel, which a partner must access before they accept any client engagement. If the client is a restricted client, such as YPO, then the partner must obtain Audit Partner approval before being permitted to accept the engagement, with individual Sentinel Approval Numbers existing for each separate engagement letter.

We also consider the fees paid to us YPO and its related entities for professional services provided by us. The Audit Committee receives an annual report which summarises fees paid to KPMG for non-audit services.

Having considered the above and other relevant factors, in our professional judgement, we are satisfied that KPMG is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.

### Non audit services

The principal threats to an auditor's objectivity and independence are:

- self interest
- self review
- acting as management
- acting as advocate
- familiarity
- intimidation

As a result we operate a proprietary global system (Sentinel) to ensure that all requests from YPO via local KPMG offices, for KPMG to provide non-audit services are considered in the context of YPO policy and our professions ethical standards. Where necessary, further information is sought and specific approvals obtained from the Audit Committee.

In relation to all services provided, consideration is given to any threats to our objectivity and independence. In relation to non audit services which may impact on the financial statements, we apply appropriate safeguards. These include separation of personnel from the audit team and ensuring no decisions or accounting judgements were made by KPMG LLP on behalf of management. In particular, in relation to tax compliance, we do not provide tax accounting schedules.

In summary, in the light of the above safeguards, our assessment is that the above matters have been properly addressed in accordance with APB Ethical Standards and do not threaten our objectivity or independence.

## APPENDIX 4 QUALITY CONTROL PROCEDURES

Our values are at the heart of our Global Code of Conduct, which defines the standards of ethical conduct we require of people in KPMG's member firms worldwide.

- We lead by example
- We work together
- We respect the individual
- We seek the facts and provide insight
- We are open and honest in our communications
- We are committed to our communities
- Above all, we act with integrity.

Audit Quality is integral to our business and is the responsibility of every partner and employee.

KPMG has developed a global Audit Quality Framework to ensure our people concentrate on the skills and behaviours that are needed to deliver an appropriate and independent opinion.

Every KPMG firm across the world uses this framework to describe, focus on and enhance audit quality for the benefit of our clients.

All member firms are committed to following common standards in the provision of services, and maintaining the highest standards of independence and integrity.

Our training, our processes and our systems and controls are all designed to achieve objective independent advice and opinions on which shareholders can rely.

The framework ensures we meet the requirements of UK law, professional standards issued by the UK Auditing Practices Board and IFAC rules.

It provides us with reasonable assurance of compliance with the UK Companies Acts and professional standards, firm policies and PCAOB and SEC rules where relevant.

We are the only firm to rollout an Audit Quality Framework across our entire global network.



Tone at the top sits at the core of our Audit Quality Framework and ensures the right behaviours permeate across our entire organisation

- Irrespective of management's documented strategy and policies, it is the force that drives individual professionals.
- The 'unseen hand' that directs activities regardless of management's proximity to the action.
- A commitment to the quality of care clients receive.

In the UK we have set up an Audit Quality Forum to continuously review, monitor and enhance audit quality throughout the practice.



*cutting through complexity*

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