

Your Ref.
Our Ref
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Date 27 October 2016

Joanne Roney OBE
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Typetalk calls welcome

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

Dear Member

YPO AUDIT SUB-COMMITTEE – FRIDAY, 4 NOVEMBER 2016

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit Sub-Committee which is to be held at **10:30 am on Friday, 4 November 2016 in the YPO HQ, 41 Industrial Park, Wakefield** to consider the items set out in the agenda attached.

Will Members please note that a Financial Management Training session will take place prior to the meeting at 10.00am.

Yours sincerely



Joanne Roney OBE
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 SUB-COMMITTEE -
Friday, 4 November 2016**

AGENDA

1. Election of Chair.
Nominations are requested for the position of Chair of the Audit Sub-Committee for the year 2016/17.
2. Chair's Introduction and Welcome.
3. Acceptance of Apologies for Absence.
4. To approve, as a correct record, the Minutes of the meeting held on 22 April 2016. (Pages 1 - 4)
5. Members' Declaration of Interest.
6. To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.
7. Internal Audit Plan Template 2017. (Pages 5 - 14)
8. Progress on 2016 Internal Audit Plan. (Pages 15 - 20)
9. Year End Closedown Timetable. (Pages 21 - 24)
10. External Audit Plan. (Pages 25 - 42)
11. Annual Audit Letter. (Pages 43 - 50)
12. Exclusion of the Public and Press
In relation to reports containing exempt information to consider and, if approved, pass the following resolution: -

"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"
13. Emerging Business Planning Risks 2017. (Pages 51 - 76)
14. IT Investment - Programme Link Update. (Pages 77 - 84)
15. Date and Time of Next Meeting.
The next meeting of the YPO Audit Sub-Committee will be held on 24 February 2017 at 10.30am.

YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE

Friday 22nd April 2016

Present: The Chair: Councillor Walker (Wigan MBC)
 County Councillor Trotter (North Yorkshire CC)
 Councillor Waller (York)

| | |
|------------|--|
| 30. | CHAIR'S INTRODUCTION & WELCOME |
| | The Chair provided apologies for the meeting. Councillor Walker was nominated as the stand in Chair for this meeting. Councillor Walker welcomed all parties to the meeting. |
| 31. | ACCEPTANCE OF APOLOGIES FOR ABSENCE |
| | Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Johnson (Wakefield MDC), Councillor O'Neill (Kirklees) and Councillor Corden (Doncaster). |
| 32. | MINUTES – 26 FEBRUARY 2016 |
| | The minutes of the YPO Audit Sub-Committee held on 26 th February 2016 were approved as a correct record. |
| 33. | URGENT ITEMS |
| | No urgent items were discussed. |
| 34. | EXTERNAL AUDIT REPORT |
| | Consideration was given to the External Audit Report from KPMG which provided Members with key findings from the recent audit. Rashpal Khangura (Director, KPMG) shared that the report gives a clean audit and clean value for money conclusion. Rashpal thanked YPO for their support during the audit process and noted that it had been a smooth process and the finance team were very well prepared. Resolved – (1) That the report be noted. |
| 35. | AUDITED STATEMENT OF ACCOUNTS |
| | Consideration was given to a report of the Head of Finance which detailed the 2015 Audited Statement of Accounts. The Audited Statement of Accounts have been externally audited and the auditors anticipate an unqualified opinion. |

| | |
|------------|---|
| | <p>Resolved – (1) That the completion of the Audited Statement of Accounts for 2015, attached as Appendix 2 be noted.</p> <p>(2) That the Members of the Audit Sub Committee recommend sign off of the accounts to the Chair of the Audit Sub Committee, Councillor Johnson.</p> |
| | |
| 36. | AUDIT SUB COMMITTEE 2016/17 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 2016/17 committee cycle.</p> <p>The report also proposed the Terms of Reference, Principal Agenda Items, 2016/17 Meeting Schedule and Training Plan.</p> <p>Resolved – (1) That the report be noted and submitted to the Annual General Meeting June.</p> <p>(2) That the meeting dates will be reviewed to ensure dates do not clash with postal votes around elections.</p> |
| | |
| 37. | 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 Management 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 Audit Sub Committee recommends to the Management Committee the proposals outlined in table 2.2.</p> |
| | |
| 38. | INTERNAL AUDIT PROGRESS |
| | <p>Consideration was given to a report which detailed the Internal Audit's progress and work during the period February to March 2016 and to note the contents therein.</p> <p>Resolved – (1) That the report be noted.</p> |
| | |
| 39. | IT PROGRAMME UPDATE |
| | <p>Consideration was given to the report of the Head of Business Change & IT which provided Members with an update on the current project dossier as of April 2016.</p> <p>The report summarised the major risks and mitigation for each project and</p> |

| | |
|------------|--|
| | <p>Members were informed that the Board review the activity and progress on the IT Programme on a monthly basis at the Programme Board Meeting.</p> <p>A further update to Members will be included in the Business Update at the Annual General Meeting in June.</p> <p>Resolved – (1) That the report be noted.</p> |
| | |
| | |
| 40. | <p>DATE AND TIME OF NEXT MEETING</p> <p>Resolved – (1) That the next meeting of the YPO Audit Sub-Committee is proposed for Friday 4th November 2016 at 10.30am, at YPO Headquarters.</p> |
| | |



YPO
AUDIT SUB-COMMITTEE
TO BE HELD ON
4TH NOVEMBER 2016

TITLE: 2017 DRAFT INTERNAL AUDIT PLAN TEMPLATE

REPORT OF: THE s151 OFFICER

1 PURPOSE OF REPORT

- 1.1 This report is produced by the s151 Officer to provide Members with information relating to the 2017 Draft Internal Audit Plan.

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 Three-Year Internal Audit Strategy incorporating the Annual Internal Audit Plan, approved by Wakefield Council. It provides the basis for YPO annual planning. The YPO Annual Audit Plan details the individual audits to be undertaken within the overall strategy for the year ahead.
- 2.2 Each calendar year a risk based Annual Plan of audit work to be performed is prepared by the Service Manager Internal Audit & Risk, and submitted to the Assistant Chief Executive – Resources & Governance (Wakefield Council) and Managing Director of YPO for approval. It is then submitted to the YPO Board of Directors for ratification. The Annual Audit Plan is presented to the Audit Sub-Committee for comment and Management Committee for Member approval.
- 2.3 In formulating the plan, Internal Audit consults with YPO Board Members, Service Managers and other relevant officers, the s151 Officer, External Audit and YPO Members as deemed appropriate, to determine the extent, scope and risks associated with activities to be reviewed and to ensure proper audit coverage avoiding duplication of effort.
- 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 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 Sub-Committee will receive the Draft Annual Audit Plan at a later date, following its formulation. At this

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 FINANANCIAL 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 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 the attached Annual Audit Plan template for 2017, which identifies areas of potential audit activity, 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;
 - b) suggest any specific areas to consider including within the Plan, based on Member assurance requirements.

**SERVICE DIRECTOR: MICHAEL CLEMENTS, ASSISTANT CHIEF EXECUTIVE –
RESOURCES & GOVERNANCE (WAKEFIELD COUNCIL)**

**CONTACT OFFICERS: MARK ST ROMAINE, SERVICE MANAGER INTERNAL AUDIT &
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APPENDIX:

Appendix 1 – Draft Internal Audit Plan Template for 2017

APPENDIX 1

DRAFT INTERNAL AUDIT PLAN TEMPLATE FOR 2017

NOTE: This template identifies areas of potential auditable activity. Not all of these will appear in the Audit Plan approved by the Management Committee.

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|--|-----------------|--|
| Main Financial Systems | | | |
| <p>Main Financial Systems - annual review and testing.</p> <p>Linked to various finance-related strategic risks.</p> <p>Also linked to YPO operational risk register for Finance.</p> | <p>High volume and value of transactions.</p> <p>Assurance provided to s151 officer and External Auditor.</p> | <p>Annually</p> | <p>The systems subject to annual review and testing are:</p> <ul style="list-style-type: none"> • Ordering and Creditors – split between: (i) Working Expenses including Hired Carriers, and (ii) Business Creditors • Main Accounting System • Payroll • Debtors – split between: (i) Business Income, and (ii) Non-Business Income • Budgetary Control • Asset Management • Stock control |
| Other Risk Based Audit Work | | | |
| <p>New systems / initiatives being developed.</p> <p>Linked to YPO strategic risk:</p> <p>SR-0003 Programmes and projects are not aligned to YPO's strategic objectives.</p> | <p>To ensure projects are properly established, best practice is adhered to regarding procurement routines and project management, and best value is obtained.</p> <p>Internal Audit</p> | <p>Annually</p> | <p>In addition to involvement in new systems and initiatives that are already ongoing, to confirm with YPO senior management the new systems and initiatives which are due to be developed in 2017 and beyond.</p> <p>Consultancy role, involving ongoing support to the Business Change Programme as necessary. The role may include such matters as:</p> <ul style="list-style-type: none"> • Business case stage – |

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|--|---|---|
| | <p>involvement helps ensure that adequate controls are built into all new systems.</p> | | <p>Input to consideration of options. Are benefits, dis-benefits and risks adequately recorded? Is the costing methodology used consistent across the options? Does the costing of the options take everything into account? Are the costs calculated correctly? Are the objectives of the proposed project measurable?</p> <ul style="list-style-type: none"> • Risk register – Input to compilation of the project risk register as a ‘critical friend’. Are all of the key risks included? • Project stage – Comment on the adequacy of the controls that are being built into the new system and whether these will be sufficient to mitigate key risks. Comment on the adequacy of the governance arrangements (for example, the approval process at the start of the project, arrangements for reporting on progress with regards to time being taken and cost, stakeholder involvement and delegation of decisions during the course of the project). May involve periodic attendance at Project Board meetings. • Post ‘Go Live’ – Review and comment upon the project closure report and the benefits realisation, including lessons learned. |
| <p>Anti-fraud and bribery arrangements / testing.</p> | <p>Potential impact on YPO if fraud and / or bribery were to occur.</p> | <p>2015 (Anti-fraud and bribery arrangements)</p> | <p>Two potential elements:</p> <ul style="list-style-type: none"> • Robustness of the overall arrangements for preventing fraud and |

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|---|--|---|
| <p>Linked to YPO strategic risk:</p> <p>SR-0006 Financial crime, fraud, bribery and / or corruption.</p> <p>Also linked to various fraud-related risks on YPO operational risk registers.</p> | | <p>2013</p> <p>(Anti-fraud and bribery arrangements)</p> | <p>bribery, and</p> <ul style="list-style-type: none"> Undertaking proactive testing on work areas which could be susceptible to fraud and / or bribery if controls have lapsed. |
| <p>Performance Management</p> <p>Linked to various YPO strategic risks including:</p> <p>SR-0001 Lack of availability (or unacceptable cost) of adequate funds to fulfil the strategic plan.</p> <p>SR-0005 Under-achievement of sales forecast.</p> <p>SR-0012 Poor customer service.</p> | <p>Good performance management is a prerequisite for a successful organisation.</p> | <p>2016</p> <p>(An audit on Business Performance Management is due to take place)</p> <p>2013</p> <p>(Data Quality)</p> | <p>Undertake testing to confirm that controls exist to mitigate the risks associated with Performance Management and are working in practice.</p> |
| <p>Business Planning</p> <p>Linked to various YPO strategic risks including:</p> <p>SR-0001 Lack of availability (or unacceptable cost) of adequate funds to fulfil the strategic plan.</p> <p>SR-0003 Programmes and projects are not aligned to YPO's strategic objectives.</p> <p>SR-0008 Inadequate workforce skills to support organisational</p> | <p>If YPO does not have a sound business planning process in place, its activities may not properly support the strategic objectives of the organisation.</p> | <p>2016</p> <p>(An audit on Business Planning was ongoing as at October 2016)</p> <p>2014</p> <p>(Business Planning)</p> | <p>Undertake testing to confirm that controls exist to mitigate the risks associated with Business Planning and are working in practice.</p> |

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|---|---|--|
| strategy. | | | |
| <p>Risk Management</p> <p>Linked to all YPO strategic risks.</p> | <p>Periodic assurance required that robust risk management arrangements are in place.</p> | <p>2013</p> <p>(Strategic Risks – Risk Management Process)</p> | <p>Undertake testing to confirm that controls are in place to ensure risk management remains robust and are working in practice.</p> |
| <p>Specific strategic risks not covered above.</p> <p>Linked to various YPO strategic risks dependent on full nature of work.</p> | <p>If YPO does not have sound arrangements in place for identifying and managing strategic risks, it could adversely impact upon the achievement of its strategic objectives.</p> | <p>2016</p> <p>(An audit on Fleet Replacement / Third Party Logistics was ongoing as at October 2016)</p> <p>2015</p> <p>(IT Application Controls – STEP; IT Application Controls – Navision)</p> <p>2014</p> <p>(Programme Management; Legal Arrangements; Business Continuity)</p> <p>2013</p> <p>(Framework Contracts)</p> | <p>For a sample of specific strategic risks, which are key to the achievement of strategic objectives, undertake testing to confirm that controls exist to mitigate the risks and are working in practice.</p> |
| <p>Risk based audits on areas of operational activity</p> <p>Linked to various YPO operational risks dependent on full nature of work.</p> | <p>Internal Audit reviews of areas of operational activity, on a cyclical basis, help provide assurances on the overall levels of control in place to mitigate relevant business risks.</p> | <p>2016</p> <p>(IT interface controls relating to information transferred from source to another application; Security Arrangements; an audit on Payment Card</p> | <p>For a sample of specific areas of operational activity, undertake testing to confirm that controls exist to mitigate the risks and are working in practice.</p> |

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|---|---|--|
| | | Industry Data Security Standard requirements was ongoing as at October 2016) 2013 (Customer Engagement; Sales; Supply Chain Operations) | |
| Ongoing audit work at year-end. Linked to various YPO risks. | Annual allocation for plan achievement. First priority in new audit year. | Annually | To complete all audits ongoing at the end of December 2016 year-end, as detailed within Internal Audit's 2016 Annual Report. |
| Follow Up Audits | | | |
| Follow up on work undertaken and reported previously. Linked to various YPO strategic and operational risks dependent on full nature of work. | To ensure control issues identified from previous audit reports have been adequately addressed. | 2015 (Main Financial Systems Follow Up) 2013 (Marketing Follow Up) | Confirming implementation of agreed actions arising from recent Internal Audit reports, with emphasis placed on reports issued with high priority actions. |
| Liaison, Consultancy and Advice | | | |
| Input to YPO Committee function. Linked to various YPO strategic and operational risks dependent on full nature of work. | It is essential that Members of the YPO Committees are kept sufficiently informed of Management and Internal Audit activities at YPO. | Annually | Preparation of Internal Audit reports to YPO Committees. Attendance at YPO Committee meetings to present Internal Audit reports. Support as necessary to management attending YPO Committee meetings. Input to Member development / training regarding audit-related issues. |
| Liaison, consultancy and advice. Linked to various | It is essential to respond to Management when advice is | Annually | Audit resources utilised throughout the year as required. |

| Plan / Risk Area | Rationale For Undertaking Audit | Previous Audit | Comments |
|---|---|----------------|--|
| YPO strategic and operational risks dependent on full nature of work. | requested / required and to ensure adequate liaison takes place with a view to maintaining good working relationships. | | |
| Additional Chargeable Activities | | | |
| Investigate any areas of suspected fraud / irregularity. | Input by Internal Audit is essential to the proper independent investigation of some alleged irregularities. Poor investigations by others may lead to unacceptable outcomes and a continuance of the irregularity. | Annually | Any work required in this area to be agreed with YPO's senior management and / or Lead Authority Statutory Officers and the Plan adjusted accordingly. |



YPO
AUDIT SUB-COMMITTEE
TO BE HELD ON
4TH NOVEMBER 2016

TITLE: PROGRESS ON THE 2016 INTERNAL AUDIT PLAN

REPORT OF: THE s151 OFFICER

1 PURPOSE OF REPORT

- 1.1 This report is produced by the s151 Officer to provide Members with details of Internal Audit's performance and work since the last meeting of the Audit Sub-Committee.

2 BACKGROUND INFORMATION

- 2.1 The report attached at Appendix A records details of audit work undertaken, and reports issued, between April and October 2016.
- 2.2 In line with agreed protocols, a further progress report will be submitted to the next meeting of the Audit Sub-Committee.

3 STRATEGIC IMPLICATIONS

- 3.1 Internal Audit's work includes involvement at a strategic level. A number of audits in the 2016 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 2016 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 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.

SERVICE DIRECTOR: MICHAEL CLEMENTS, ASSISTANT CHIEF EXECUTIVE – RESOURCES & GOVERNANCE (WAKEFIELD COUNCIL)

CONTACT OFFICERS: MARK ST ROMAINE, SERVICE MANAGER INTERNAL AUDIT & RISK (WAKEFIELD COUNCIL); CARL TWEED, AUDIT MANAGER (WAKEFIELD COUNCIL)

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APPENDIX:

Appendix 1 – Internal Audit Progress Report as at October 2016

Internal Audit Progress Report As At October 2016

REPORT OF: Mark St Romaine, Service Manager – Internal Audit & Risk
(Wakefield Council)
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CONTACT OFFICER: Carl Tweed, Audit Manager (Wakefield Council)
Tel. no. 01924 306054
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PURPOSE OF REPORT

1. The purpose of this report is to:
 - 1.1 Present to the YPO Audit Sub-Committee details of Internal Audit’s performance and work since the last meeting of the Audit Sub-Committee.
 - 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 2016 AUDIT PLAN

2. Three Internal Audit reports have been issued so far in 2016. One of these reports was discussed at the Audit Sub-Committee on the 26th February 2016, namely:
 - Main Financial Systems 2015.
3. Two Internal Audit reports have been issued since the last meeting of the Audit Sub-Committee, as shown below:

| Report | Audit Opinion in Report / Main Messages in Report | Actions Taken By YPO |
|----------------------------------|--|---|
| Security Arrangements – 27/04/16 | <p style="text-align: center;">Not Applicable</p> <p>The audit examined the extent to which the recommendations made by Zurich during their review of YPO’s security (September 2015) had been implemented. It found that good progress had been made.</p> <p>The audit also assessed compliance with YPO’s new Security Policy and the CCTV Policy. It found that good progress had been made in ensuring that these policies are complied with. It was recommended that either the existing Security Policy should be amended to include IT security or that a separate IT Security Policy should be written.</p> | Progress in implementing the recommendation about the Security Policy will be considered as part of the audit on Main Financial Systems 2016. |
| IT interface | Fully Effective | The returned action plan from |

| | | |
|---|---|--|
| <p>controls relating to information transferred from source to another application – 24/05/16</p> | <p>Controls are in place and operating to mitigate the risk of data becoming lost, corrupted, misinterpreted, delayed, duplicated or accessed by unauthorised persons.</p> <p>The audit did identify a couple of areas where minor control improvements could be made to enhance the existing controls.</p> | <p>YPO states that the two minor control improvements will be completed by the end of December 2016.</p> |
|---|---|--|

- 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 2016.
 - 4.2 Business Planning.
 - 4.3 IT Payment Card Industry Data Security Standard (PCI-DSS) compliance.
 - 4.4 Fleet Replacement / Third Party Logistics.

- 5. In terms of Internal Audit’s performance against its own local Key Performance Indicators, the position as at October 2016 is summarised below:
 - 5.1 A calendar year plan was agreed covering the period 1st January 2016 to 31st December 2016. The Internal Audit Service is on target to deliver jobs in line with the agreed plan.
 - 5.2 Three client surveys have been issued so far in 2016, following completion of the audit assignments on Main Financial Systems, Security Arrangements and IT interface controls. All of them were returned with an overall opinion of ‘Very Good’.
 - 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 2016 will be to complete the ongoing audits on main financial systems, Business Planning, IT PCI-DSS compliance and Fleet Replacement / Third Party Logistics. The proposed audit on Business Performance Management will also take place.

OUTSTANDING REPLIES TO AUDIT REPORTS

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



YPO
AUDIT SUB-COMMITTEE
TO BE HELD ON
4TH NOVEMBER 2016

TITLE: CLOSE OF ACCOUNTS AND AUDIT 2016

REPORT OF: HEAD OF FINANCE

1. PURPOSE OF REPORT

- 1.1 To approve contents of the 2016 closedown timetable and agree to the arrangements for the 2016 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 "Y.P.O. 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 The content of the Accounts and Audit Regulations includes themes such as:
- a) Examining systems of Internal Control.
 - b) Observance of financial control systems and keeping up to date accounting records.
 - c) The use of an effective Internal Audit function.
 - d) Reviews of internal control systems.
 - e) The use of narrative statements to comment on "financial performance and economy, efficiency and effectiveness in its use of resources over the financial year".
 - f) Approval of the Statement of Accounts.
 - g) Publication of the Statement and annual governance statements.
 - h) Public inspection rights and related notice periods.
 - i) Notice of conclusion of the audit and objections.
 - j) Publication of the annual audit letter.
 - k) Certain disclosure requirements not listed in the C.I.P.F.A. (Accounting) Code of Practice, including salaries, pensions, compensation for loss of office and other benefits paid to people earning more that £50,000 per annum.

3. RECOMMENDATIONS

- 3.1 It is anticipated that external audit will examine items a) – d) and j) during the audit process. It is recommended that
- a) The Statement of Accounts includes a narrative statement as per e) above. This would replace the Foreword and Summary. The requirement to do this is shown in an update to the (Accounting) Code for 2015/16, which applies to the Y.P.O.

accounts for 2016.

- b) The approval process continues as per the existing arrangement (see (f) above). This will include approval of the pre-audited and final statements of accounts by the Audit Committee. The statement will also require the usual approval of the section 151 officer and the chairperson of the Audit Committee.
- c) An annual governance statement is prepared which will help the auditors in their consideration of value for money and governance arrangements
- d) For commercial reasons, the accounts are not published and only disclosed to the 13 Founder Members. That means that Y.P.O. would not be involved in items g) – i) above.
- e) That the disclosures mentioned in k) above are included in the 2016 and future Statements of Accounts.

3.2 That the timetable mentioned in appendix 1, which assumes that the contents of section 3.1 above are agreed, 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 2016 and Audit plan key dates.

APPENDIX

Appendix 1 – Closedown timetable 2016 and Audit plan key dates

| Task | Deadline | Responsible |
|--|-----------------|---------------------|
| Close down of 2016 year end | 23/12/2016 | YPO |
| Completion of 2016 Annual Governance Statement | 13/01/2017 | YPO / WMDC |
| Receipt of pensions data | 13/01/2017 | YPO |
| Pre audit statement agreed with s151 officer | 22/02/2017 | YPO / WMDC |
| Pre audit statement to Audit Sub Committee | 24/02/2017 | Audit Sub Committee |
| Production of KPMG working File | 24/02/2017 | YPO |
| Audit commences (checking process) | 06/03/2017 | KPMG / YPO |
| Audit finishes (checking process) | 24/03/2017 | KPMG/YPO |
| Letter of representation & report to those charged with governance | 07/04/2017 | KPMG/YPO |
| Audited statement agreed with s151 officer | 07/04/2017 | YPO / WMDC |
| Audit opinion and VFM conclusion. | 21/04/2017 | KPMG |
| Approval of the statement of accounts | 28/04/2017 | Audit Sub Committee |



YPO
AUDIT SUB-COMMITTEE
TO BE HELD ON
4TH NOVEMBER 2016

TITLE: EXTERNAL AUDIT PLAN

REPORT OF: FINANCIAL CONTROLLER

1. PURPOSE OF REPORT

1.1 To present to members the 2016 external audit plan.

2. BACKGROUND INFORMATION

2.1 Attached at Appendix A is the external audit plan, prepared by KPMG, for the 2016 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 The financial implications are as specified above.

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 has been agreed by our Management Committee that we will 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.

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APPENDIX:

Appendix 1 – External Audit plan 2016



cutting through complexity

Yorkshire Purchasing Organisation

Audit planning memorandum

Year ending 31 December 2016

| | Page | Basis on which information is provided |
|---|-------------|---|
| Introduction and audit approach | 2 | To a certain extent the content of this memorandum comprises general information that has been provided by, or is based on discussions with, YPO management. The information in this document has not been verified except to the extent required for the purpose of our audit. |
| Executive Summary | 3 | |
| Significant risks and focus areas | 4 | This document is provided on the basis that it is for your information only, that it will not be quoted or referred to without our prior written consent, and that we accept no responsibility to any third party in relation to it. |
| Materiality | 5 | |
| Value for money | 6 | |
| Audit timeline | 7 | |
| Fraud | 8 | |
| Team structure | 9 | |
| Audit fees | 10 | |
| Appendices: | | |
| 1. Mandated Communications with the Audit Committee | 12 | |
| 2. Auditor independence | 13 | |
| 3. Quality control procedures | 14 | |

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 2016.

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 2016 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 2015/16.

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 2016. 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

We will also consider stock write-offs and obsolete stock as an area of focus.

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

Page 4



FOCUS ON YOUR ACCOUNTS

YPO is producing non-statutory accounts for the first time for 2016 and has chosen to apply the financial reporting framework of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We have been working with management to ensure that the impact of the change to producing non-statutory accounts is understood and that the required disclosures are included in the financial statements.

TIMELINE, APPROACH AND DELIVERABLES

The timeline and approach is similar to the prior year.

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

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.

AUDIT OVERVIEW

SIGNIFICANT RISKS AND OTHER AREAS OF FOCUS

| Significant risk | What is the risk? | How is the risk addressed through our audit? |
|--|---|---|
| Fraud risk from revenue recognition | <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"> • Attendance at stocktakes • Testing of the bad debt provision and aged debt disclosures • Testing a sample of contract rebates to supporting evidence |
| Risk of management override of controls | <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> |
| Other areas of audit focus | What is the risk? | How is the risk addressed through our audit? |
| Stock write-offs and obsolete stock | <p>YPO's stock balance at 31 December 2016 was £12.5m and the stock system drives many of the significant entries in the accounts including turnover and cost of sales. We have identified two specific risks to the existence and valuation of the stock balance:</p> <ul style="list-style-type: none"> • Items in stock but obsolete • Items included in stock records but missing from the warehouse <p>There is a risk that YPO does not have systems and processes in place to identify obsolete stock items with a value below purchase price and that require an impairment.</p> <p>There is a risk that YPO does not have a clear picture of the value of stock recorded on the stock system but not available for sale to customers.</p> <p>In both cases the impact on the accounts is an overstatement of the stock balance and an understatement of costs.</p> | <ul style="list-style-type: none"> ■ We will discuss with management the processes in place to identify and impair obsolete stock. ■ We will walkthrough the process to test the effectiveness of the design and implementation of controls in mitigating the risk of unimpaired obsolete stock. ■ We will discuss with management the processes in place to identify stock discrepancies. ■ We have attended the food stocktake in 2016. ■ We will trace all stock adjustments through to the financial statements. |

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.

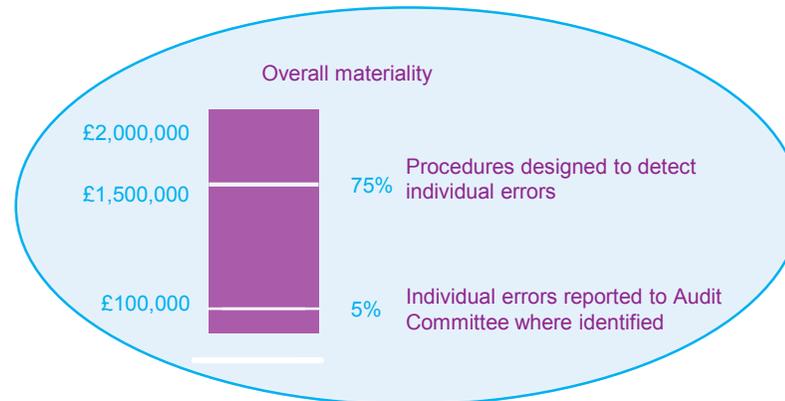
Materiality has been set at £2m which is 1.7% of forecast revenue. This is below the 2015 level of 2% in order to reflect changes to risks in the sector and the fact that YPO are producing non-statutory accounts for the first time. This will be revisited at the year end audit to ensure it remains appropriate.

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)



Our approach to VFM work follows guidance provided by the NAO.

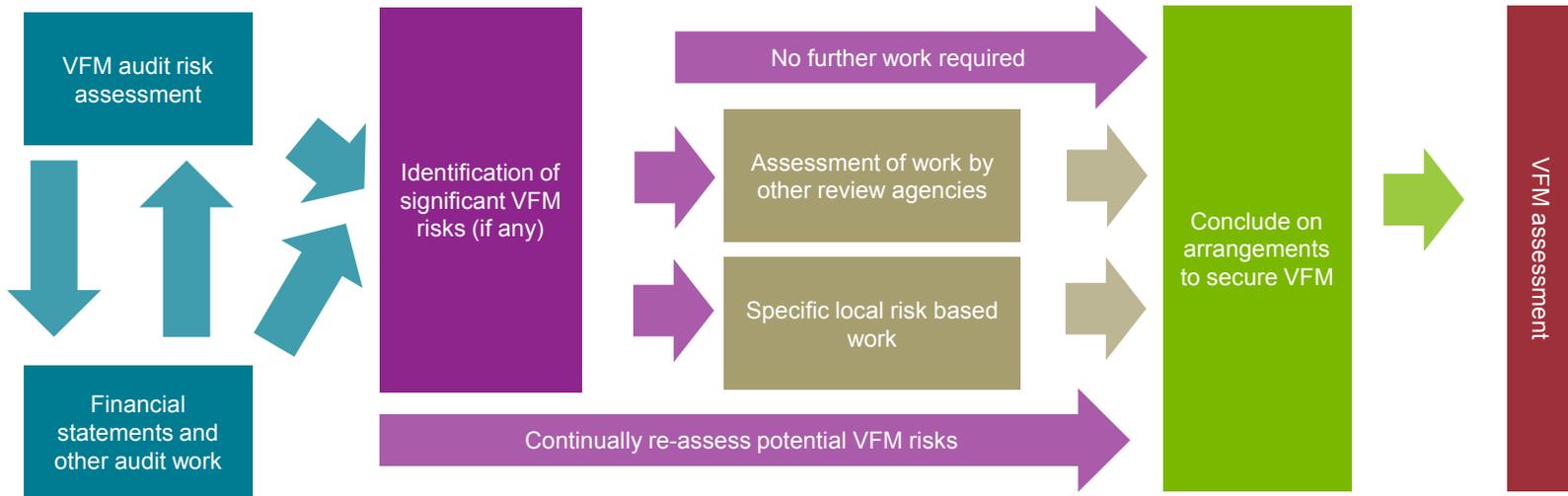
Background to approach to VFM work.

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.



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.



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

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.

Lizzie will continue to 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. She 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.

Matthew will lead the team on site during our interim and final audit visits. He 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

Lizzie Wharton
Manager

Matthew Moore
Assistant Manager

Our fee for the audit is £23,135 including £2,500 for your value for money conclusion. The proposed fee includes a 18% decrease compared to last year's fee to reflect the savings from delivering a non-statutory audit outside the PSAA contract.

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.



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APPENDICES

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

APPENDIX 1 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 |
|--|---|
| <ul style="list-style-type: none"> 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 16 |
| <ul style="list-style-type: none"> 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 |
| <ul style="list-style-type: none"> 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. |
| <ul style="list-style-type: none"> 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) | |
| <ul style="list-style-type: none"> 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) | |
| <ul style="list-style-type: none"> 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) | |
| <ul style="list-style-type: none"> The auditor's view on valuations and related disclosures (ISA 260) | |
| <ul style="list-style-type: none"> 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) | |
| <ul style="list-style-type: none"> Expected modifications to the auditor's report (ISA 260) | |
| <ul style="list-style-type: none"> 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) | |
| <ul style="list-style-type: none"> 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

Permissible non-audit services that auditors may perform for their audit clients are enshrined in the APB's Ethical Standard 5.

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.

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.



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YPO
AUDIT SUB-COMMITTEE
TO BE HELD ON
4TH NOVEMBER 2016

TITLE: PRESENTATION OF THE ANNUAL AUDIT LETTER 2015 AND NOTICE OF THE CLOSURE OF THE AUDIT FOR 2015

REPORT OF: FINANCIAL CONTROLLER

1. PURPOSE OF REPORT

To present to Members the annual audit letter 2015 (attached as appendix 1).

2. BACKGROUND INFORMATION

- 2.1 The annual audit letter attached at appendix 1 is provided for member's comments prior to publishing on the YPO website.
- 2.2 The letter was discussed and agreed with YPO management on the 4th October 2016.
- 2.3 The letter summarises the findings previously presented to the Audit Sub Committee in the KPMG ISA260 report to those charged with governance.
- 2.4 The advert for the closure of the audit will be displayed on the Organisations website and was advertised in the following publications on the 11th and 13th October 2016.

Yorkshire Post
Liverpool Echo
Bolton Evening News
Wigan Observer
Leigh Midweek

3. STRATEGIC IMPLICATIONS

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

4. FINANCIAL IMPLICATIONS

- 4.1. As specified.

5. LEGAL IMPLICATIONS

5.1. Completion of the Annual Audit for the 2015 statement of accounts was a requirement of the Accounts and Audit Regulations 2011.

6. EQUALITY IMPLICATIONS

6.1. There are no specific equality implications associated with this report.

7. RISK IMPLICATIONS

7.1. This is to raise awareness. Thus accepting the report does not in itself pose any risk to the organisations well-being.

8. RECOMMENDATION

8.1 Members note the content of the Annual Audit Letter.

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APPENDIX:

Appendix 1 – 2015 Annual Audit Letter



Annual Audit Letter 2015

Yorkshire Purchasing Organisation

—

October 2016



Contents

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Matthew Moore

Assistant Manager

KPMG LLP (UK)

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matthew.moore@kpmg.co.uk

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| | |
|--------------------------|---|
| Headlines | 3 |
| Summary of reports issue | 4 |

This report is addressed to the Organisation and has been prepared for the sole use of the Organisation. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Organisation, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

This Annual Audit Letter summarises the outcome from our audit work at the Yorkshire Purchasing Organisation (YPO) in relation to their 2015 audit year.

Although it is addressed to Members of YPO, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on YPO's website.

| | |
|------------------------------------|---|
| VFM conclusion | We issued an unqualified conclusion on YPO's arrangements to secure value for money (VFM conclusion) for 2015 on 10 May 2016. This means we are satisfied that the Organisation had proper arrangements for securing economy, efficiency and effectiveness. |
| Audit opinion | We issued an unqualified opinion on YPO's financial statements on 10 May 2016. This means that we believe the financial statements give a true and fair view of the financial position of YPO and of its expenditure and income for the year. |
| Financial statements audit | We identified two audit differences that, while not material, were brought to the attention of those charged with governance to help them with fulfilling their duties. The financial statements were not amended for these audit differences. We are pleased to report that we noted an improvement in the quality of the accounts and the supporting working papers this year. |
| Annual Governance Statement | We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding. |
| Certificate | We issued our certificate on 10 May 2016. The certificate confirms that we have concluded the audit for 2015 in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. |
| Audit fee | Our fee for 2015 was £28,318, excluding VAT. |

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

External Audit Plan (November 2016)
 The External Audit Plan set out our approach to the audit of YPO's financial statements and to work to support the VFM conclusion.

Auditor's Report (May 2016)
 The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.



Report to Those Charged with Governance (April 2016)
 The Report to Those Charged with Governance summarised the results of our audit work for 2015 including key issues and recommendations raised as a result of our observations.
 We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2016)
 This Annual Audit Letter provides a summary of the results of our audit for 2015.



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