

Your Ref.

Our Ref

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Date 28 October 2020

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Typetalk calls welcome

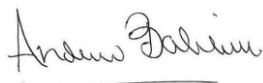
To: Members of the YPO Joint Committee Audit and Scrutiny Sub-Committee

Dear Member

YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 6 NOVEMBER 2020

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 virtually at **10:30 am on Friday, 6 November 2020** to consider the items set out in the agenda attached.

Yours sincerely



Andrew Balchin
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, 6 November 2020

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 3rd July 2020. (Pages 1 - 4)
6. Internal Audit Plan Progress Report. (Pages 5 - 10)
7. Year End Closedown Timetable. (Pages 11 - 13)
8. External Audit Strategy Memorandum. (Pages 15 - 33)
9. CIPFA Financial Management Guide Updates. - Verbal.
10. Exclusion of the Public and Press
“That the public and press be excluded from the meeting during consideration of agenda item 11 on the grounds that it is 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. Link Update Report. (Pages 35 - 36)

YORKSHIRE PURCHASING ORGANISATION**AUDIT & SCRUTINY SUB-COMMITTEE****FRIDAY, 3RD JULY 2020****Present:** The Chair: Councillor Warburton (Bradford)

Councillors: Warburton (Bradford), Barnard (Barnsley), Barnes (Calderdale), Cole (Doncaster), Nightingale (Doncaster), Haslam (Bolton), Williams (Wakefield), Wyatt (Rotherham), Walsh (Knowsley), Turner (Kirklees).

33.	CHAIR'S INTRODUCTION & WELCOME
	Councillor Warburton welcomed all parties to the meeting.
34.	ACCEPTANCE OF APOLOGIES FOR ABSENCE
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Prescott (Wigan), White (North Yorkshire), and Lomas (York).
35.	MEMBERS DECLARATION OF INTEREST
	No declarations of interest were made.
36.	URGENT ITEMS
	No urgent items were raised.
37.	PREVIOUS MINUTES (AUDIT & SCRUTINY SUB COMMITTEE)
	The minutes of the YPO Audit & Scrutiny Sub-Committee held on 14 th February 2020 were approved by all.
38.	DRAFT EXTERNAL AUDIT COMPLETION REPORT
	<p>Alastair Newall (Mazars) shared the draft External Audit completion report from Mazars. Alastair shared some of the challenges faced from conducting Audits virtually.</p> <p>Alastair shared a progress update on the report since the paper was submitted, and shared the work that is still outstanding, which will be completed in the next couple of weeks.</p> <p>Craig Maxwell (Mazars) noted his thanks for the YPO team's commitment to the audit.</p> <p>Cllr Warburton thanked both the YPO and Mazars teams for their hard work on the audit throughout a difficult time.</p> <p>Resolved – (1) That the report be noted.</p>

39.	AUDITED STATEMENT OF ACCOUNTS
	<p>Consideration was given to the report of the Head of Finance which provided Members with the details of the Audited Statement of Accounts for 2019. Paul Smith shared that due to timing issues, these accounts cannot be signed off today, however they will be taken to the full Management Committee for sign off. This does not have any negative implications for YPO.</p> <p>Resolved – (1) That the Audited Statement of Accounts for 2019 are to be submitted to the Management Committee on 24th July for approval.</p>
40.	ANNUAL INTERNAL AUDIT OPINION
	<p>Consideration was given to the report of the Service Manager for Internal Audit & Risk (Wakefield Council) which provided Members with details of the Internal audit work completed from January – December 2019.</p> <p>Jason Brook talked through the key headlines of the report. Jason shared that next year Internal Audit are to be part of the post system implementation review of the Link programme.</p> <p>Paul Smith noted his thanks to Jason and his team for their work this year.</p> <p>Cllr Warburton also noted his thanks to Wakefield Internal Audit.</p> <p>Resolved – (1) That the Internal Audit Opinion Report be noted.</p>
41.	DRAFT ANNUAL INTERNAL AUDIT PLAN 2020
	<p>Consideration was given to the report of the Service Manager for Internal Audit & Risk (Wakefield Council) which provided Members with a draft Internal audit plan for the period 2019 to 2021.</p> <p>Jason Brook noted this plan will be reviewed and amended if required on an annual basis to ensure it focusses on the most appropriate risks.</p> <p>Resolved – (1) That the report be noted.</p>
42.	GOVERNANCE REVIEW
	<p>Consideration was given to a report of the Managing Director entitled Governance Review.</p> <p>The report explained that YPO has various governance policies and these are reviewed at least annually by the Board, any changes to these policies are brought to Committee for approval.</p> <p>The report detailed when each policy was last reviewed and any proposed action by the Board.</p> <p>Resolved - (1) That Members note the contents of the table at paragraph 1.2.</p>
43.	AUDIT & SCRUTINY SUB COMMITTEE TERMS OF REFERENCE AND WORK PROGRAMME 2020/2021
	<p>Consideration was given to the report of the Managing Director which provided members with an overview of the work scheduled for the 2020/21 committee cycle.</p>

	<p>The report also proposed the Terms of Reference, Principal Agenda Items, 2020/21 Meeting Schedule and Training Plan.</p> <p>Resolved – (1) That the report be noted and submitted to the Management Committee on 24th July for sign off by all Members.</p>
44.	EXCLUSION OF THE PUBLIC AND PRESS
	<p>Resolved – That the public and press be excluded from the meeting during consideration of agenda items 13 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>
45.	LINK UPDATE REPORT (EXEMPT – PARAGRAPH 3)
	<p>Consideration was given to the report of the Deputy Managing Director (Paul Smith), which provided Members with an update on the Link system.</p> <p>Paul Smith noted there is still significant work on-going with the system, as there are still some issues. Paul noted we also have multiple external providers supporting us with this.</p> <p>Councillors asked several questions and were satisfied with the responses provided by Officers.</p> <p>Resolved – (1) That the update be noted.</p>
46.	BUSINESS UPDATE (EXEMPT – PARAGRAPH 3)
	<p>The Deputy Managing Director (Paul Smith) presented the Business Update which provided Members with an update on activities of the organisation since the last sub-committee and provided an overview on forthcoming activities and challenges.</p> <p>The Executive Director (Julie Wray) provided a Covid-19 update and shared with members the impact of this on YPO.</p> <p>Officers took questions from Councillors relating to YPO's response to Covid-19 and provided responses to these.</p> <p>Paul Smith shared an update on the Findel Acquisition status. Paul shared that the CMA have referred the decision to stage two. There will be a number of decisions which will need to be brought back to Members, and an extraordinary Management Committee meeting will be held in the next couple of weeks.</p> <p>Resolved – (1) That the report be noted.</p>
47.	DATE AND TIME OF NEXT MEETING
	<p>Resolved – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee is proposed to be held on 6th November 2020, 10.30am.</p>



YPO

AUDIT & SCRUTINY SUB COMMITTEE

TO BE HELD ON

6TH NOVEMBER 2020

TITLE: PROGRESS ON THE 2020 INTERNAL AUDIT PLAN

REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK

1 PURPOSE OF REPORT

- 1.1 This report is produced by the Service Manager for Internal Audit & Risk to provide this Group with details of Internal Audit's performance and work. Under its terms of reference, the Audit and Scrutiny Sub-Committee is responsible for considering internal audit plans and performance to ensure the work of internal audit is planned and carries out with due regard to major risks. As part of the governance arrangements at YPO, all internal audit reports are first submitted to the Strategic Officers Group. The purpose of this report is to give positive assurance on the initial planning work that has been completed, and that resources are in place to fulfil the 2020 Internal Audit Plan.

2 BACKGROUND INFORMATION

- 2.1 The report, attached as Appendix A, records details of audit work undertaken and reports issued, between 24 July 2020 and 1 October 2020. The 2020 IA Plan was approved by the Management Committee on the 24th July 2020.
- 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 2019 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 2020 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 Equality issues are taken into account when considering the Organisation's key strategic risks.

7 RISK IMPLICATIONS

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

8 RECOMMENDATION

- 8.1 That Members comment on and endorse the Internal Audit Progress Report attached as Appendix A to this report.

Contact Officers:

Julie Cousins, Principal Audit Manager
Telephone No: 01924 305667/07833 236970
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Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)
Telephone No: 01924 306054
E-mail address: jasonbrook@wakefield.gov.uk

Internal Audit Progress Report

As at 1 October 2020

REPORT OF:

Julie Cousins, Principal Audit Manager - Internal Audit & Risk
(Wakefield Council), **Email address:**
jcousins@wakefield.gov.uk

PURPOSE OF REPORT

1. The purpose of this report is to:
 - 1.1 Present to the Strategic Officers Group, details of Internal Audit's performance and work in relation to the 2020 Audit Plan.
 - 1.2 Highlight a proposed change to the 2020 Audit Plan.

PROGRESS ON THE 2020 AUDIT PLAN

2. Audit work at YPO traditionally commences during Quarter 4 of the calendar year. This year has been no exception, and the audit plan that was agreed by Audit and Scrutiny Sub Committee on 24 July 2020 is now in its early stages.
3. The following table provides a progress update as at 1 October 2020 against the agreed Audit Plan for 2020. A verbal update will be provided at the Audit and Scrutiny Sub Committee meeting.

Audit Area	Type of Audit	Brief Summary	Position as at 1/10/2020
Carry forward work from 2019			
Governance Arrangements - Business Planning	Consultancy	To gain assurance that the arrangements for debt recovery are robust and debt levels are appropriately monitored and managed.	Outstanding information has now been received which will bring the audit to a conclusion.
Section 151 Assurance Work			
Debtors	Key Financial System	To gain assurance that the arrangements for debt recovery are robust and debt levels are appropriately monitored and managed.	Audit will commence in October 2020.
Payroll	Key Financial System	To gain assurance that payroll transactions are effectively controlled.	Audit report will be issued in October 2020.
Consultancy Work			
Counter-Fraud and Corruption Arrangements	N/A	To act in a 'critical friend' role for the YPO in the review of counter-fraud policies and procedures. The work will also assist Internal Audit in its development of assurance mapping for the YPO and will link with YPO's ongoing review of counter fraud and bribery.	The Counter Fraud team will continue to offer support and advice on Counter Fraud concerns raised by colleagues at YPO and take the appropriate action in order to promote a Counter Fraud culture.
Risk Management	N/A	To act in a 'critical friend' role for the YPO in offering advice on risk management arrangements.	Consultation has been undertaken with the Assistant Financial Controller at YPO and best practice shared as to how the impacts of Covid-19 are being reflected against priority risks reporting arrangements at Wakefield, this has included sharing the latest Priority Risk register. YPO will use this information and take a

Audit Area	Type of Audit	Brief Summary	Position as at 1/10/2020
			similar approach with their next risk updates, starting with Business Planning risks. The Corporate Risk Manager has offered additional support with this process.
LINK Programme	N/A	Review of governance arrangements for implementation of LINK with focus on lessons learnt. This audit review may link with Risk Management and complement any internal reviews that YPO are undertaking.	A management request has been received to delay this audit which has been shared with the Chair of the Audit and Scrutiny Sub Committee to provide a steer on the way forward. See paragraph 4 for details.
Governance and Risk-Based Work			
Business Continuity arrangements	Risk Based	Following COVID-19 a review of the organisations business continuity arrangements is recommended to ensure that lessons learnt are captured.	Audit planning underway with key contact.
Data Quality	Risk Based	Audit to take place in 2020 covering data quality in relation to the LINK programme, ensuring the accurate of data to provide good quality management information.	Audit planning underway with key contact.
ICT Arrangements	Consultancy	This will typically cover areas such as: <ul style="list-style-type: none"> • Access Controls; • Change Controls; • Cyber Security; • File Controls; • Network Controls. 	Audit planning underway with key contact.
Transport Logistics	Risk Based	Largest expenditure cost centre therefore audit review is required.	Audit planning underway with key contact.
Adherence to legislation	Risk Based	To provide assurance over Health and Safety risk areas ensuring compliance with key policies and legal frameworks.	Not yet started – planned for November 2020.
Customer Engagement	Risk Based	The audit will provide assurance over a core strategy objective, possibly the focus could be on customer complaints and effective processing of those in 2020 following issues with the implementation of LINK.	Not yet started – planned for November 2020.

PROPOSED AMENDMENT TO 2020 AUDIT PLAN

4. The 2020 Audit Plan included an audit on the governance arrangements associated with the LINK project, to provide a view on lessons learnt. At the commencement of the planning process for this audit, a request was received to delay the audit. In line with agreed protocols the view of the Chair of Audit and Scrutiny Sub Committee has been sought on this proposal. At the date of this report a decision has not been taken on the way forward.

SUMMARY

5. All audit work will be completed in time for the annual Head of Internal Audit assurance opinion and draft Annual Governance Statement that will be presented to the Audit and Governance Sub Committee in July 2021.



YPO
AUDIT & SCRUTINY SUB COMMITTEE
TO BE HELD ON
6th NOVEMBER 2020

TITLE: YEAREND CLOSE OF ACCOUNTS AND AUDIT 2020

REPORT OF: HEAD OF FINANCE

1. PURPOSE OF REPORT

- 1.1 To approve contents of the 2020 closedown timetable and agree to the arrangements for the 2020 Statement of Accounts.

2. BACKGROUND INFORMATION

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

3. RECOMMENDATIONS

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

SERVICE DIRECTOR: SIMON HILL, MANAGING DIRECTOR

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CONTACT OFFICER: MATTHEW HIRST, HEAD OF FINANCE

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Wakefield
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E-mail address: matthew.hirst@ypo.co.uk

APPENDIX:

Appendix 1 - Closedown timetable 2020 and Audit plan key dates.

Appendix 1 – Closedown timetable 2020 and Audit plan key dates

Task	Deadline	Responsible
*Interim audit commences	14/12/2020	MAZARS / YPO
*Interim audit finishes	23/12/2020	MAZARS / YPO
Close down of 2020 year end	04/01/2021	YPO
Completion of 2020 Annual Governance Statement	22/01/2021	YPO / WMDC
Receipt of Pensions data	22/01/2021	YPO
Pre audit statement agreed with s151 officer	26/02/2021	YPO / WMDC
Pre audit statement to Audit & Scrutiny Sub Committee	05/03/2021	Audit & Scrutiny Sub Committee
*Production of KPMG working file	22/03/2021	YPO
*Audit commences (checking process)	29/03/2021	MAZARS / YPO
*Audit finishes (checking process)	23/04/2021	MAZARS / YPO
Letter of representation & report to those charged with governance	30/04/2021	MAZARS / YPO
Audited statement of accounts agreed with s151 officer	31/05/2021	YPO / WMDC
*Audit opinion and VFM conclusion	31/05/2021	MAZARS
Approval of the audited statement of accounts	02/07/2021	Scrutiny & Audit Sub Committee

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

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**Audit Strategy
Memorandum**

**Yorkshire Purchasing
Organisation
Audit of accounts 2020**

October 2020



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



Mazars LLP
5th floor, 3 Wellington Place
Leeds
LS1 4AP

Management Committee
YPO
41 Industrial Park
Wakefield
WF2 0XE

27 October 2020

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 December 2020

We are pleased to present our Audit Strategy Memorandum for YPO for the year ending 31 December 2020.

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

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

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

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor. This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest. Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 07881 283732.

Yours faithfully

Craig Maxwell, Partner and Engagement Lead

Mazars LLP

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We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

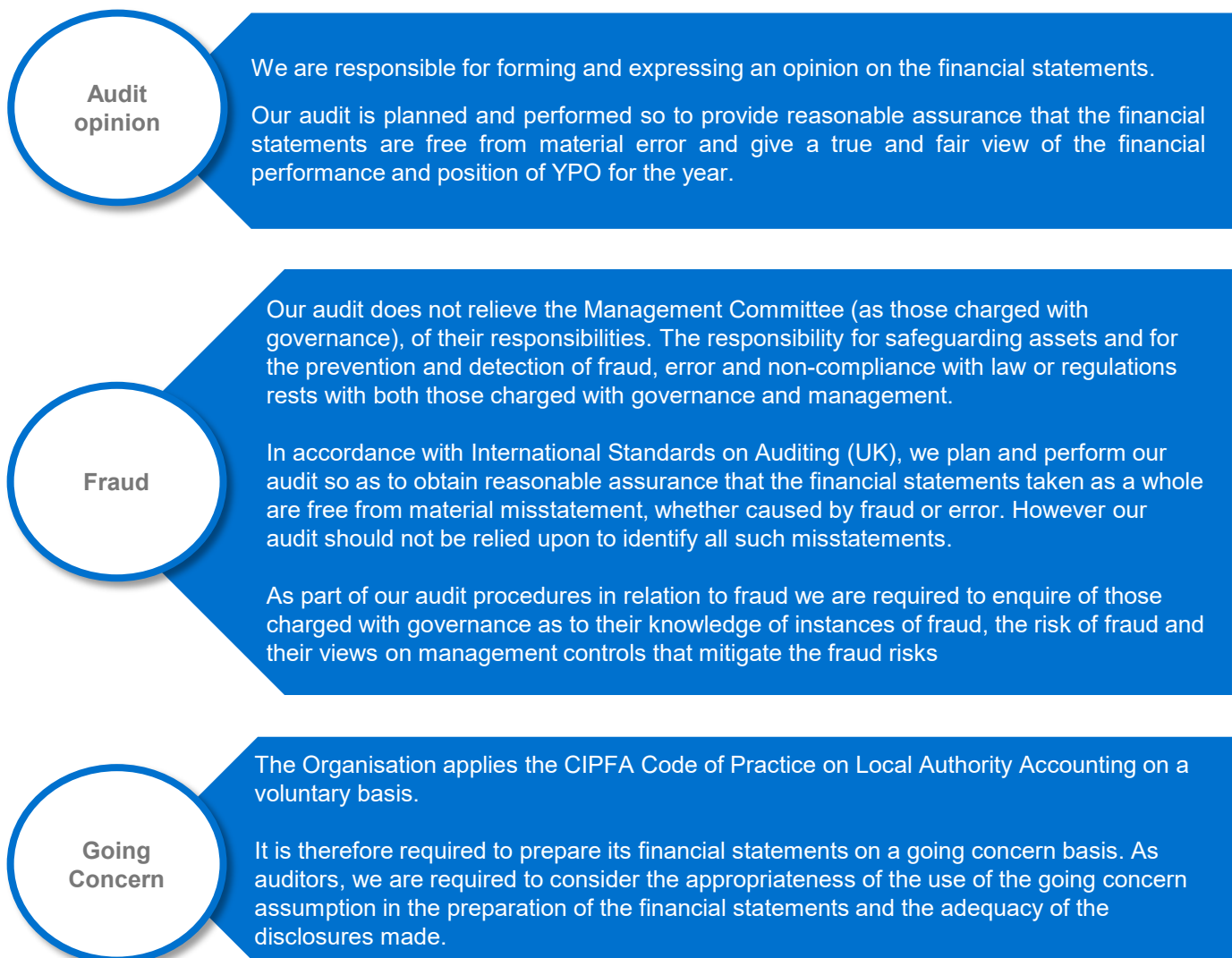
1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Yorkshire Purchasing Organisation (YPO) for the year to 31 December 2020. This is a non-statutory audit. The scope of our engagement is set out in our engagement letter.

Our responsibilities

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



2. Your engagement team



- **Craig Maxwell, Partner and Audit Engagement Lead**
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- T: 0141 227 4938 M: 07881 283732



- **Alastair Newall, Senior Manager**
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- **Jordan Townend, Audit Senior**
- E: Jordan.townend@mazars.co.uk
- T: 0113 394 5341



3. Audit scope, approach and timeline

Audit scope

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

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

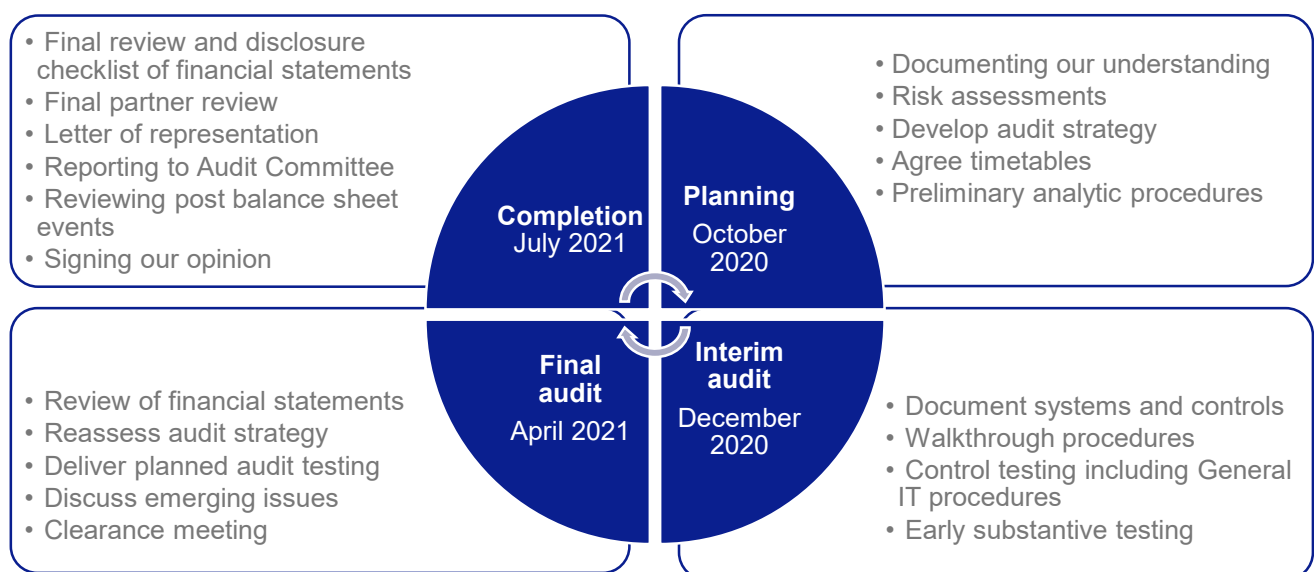
Audit approach

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

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

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

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



3. Audit scope, approach and timeline

Reliance on internal audit

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

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

Management's and our experts

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

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

Service organisations

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

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



4. Materiality and misstatements

Materiality

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

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

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

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

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

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

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

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

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

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

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



4. Materiality and misstatements

Headline Materiality

We have set our materiality threshold at the planning stage at 2% of the benchmark based on the full year forecasts as at August 2020. Based on this information we anticipate the overall materiality for 2020 to be £1.8 million.

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

Performance Materiality

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

Reporting misstatements threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Our trivial threshold is a level below which we would not ordinarily report misstatements to the Audit Committee. Our proposed triviality threshold is £54,000, based on 3% of overall materiality.

Reporting to the Audit and Scrutiny Sub-Committee

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

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



5. Significant risks, enhanced risks and key judgement areas

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

Significant risk	A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity’s controls, including control activities relevant to that risk.
Enhanced risk	<p>An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:</p> <ul style="list-style-type: none"> • key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and • other audit assertion risks arising from significant events or transactions that occurred during the period.
Standard risk	This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.



5. Significant risks, enhanced risks and key judgement areas

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

Significant risks

	Description of risk	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> <p>Our audit methodology incorporates this risk as a standard significant risk at all audits. Based our initial knowledge and planning discussions we do not consider this risk at YPO to be unusually high or requiring enhanced audit procedures.</p>	●	○	●	<p>We plan to address the management override of controls risk through performing audit work over</p> <ul style="list-style-type: none"> Accounting estimates; Manual journal entries; and Any significant transactions outside the normal course of business or otherwise unusual.
2	<p>Revenue Recognition</p> <p>There is a risk of fraud in revenue recognition due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues. Due to there being a risk of fraud in revenue recognition it is presumed to be a significant risk on all audits.</p>	●	●	●	<p>We will address this risk by performing detailed testing across each income stream focusing on the recognition of income in the correct period. Our procedures will be conducted so as to understand the policies for income recognition and to consider the risk of revenue being accounted for in the wrong accounting period.</p>



5. Significant risks, enhanced risks and key judgement areas

Significant risks (continued)

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



5. Significant risks, enhanced risks and key judgement areas

Significant risks (continued)

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



5. Significant risks, enhanced risks and key judgement areas

Enhanced risk

	Description of risk	Fraud	Error	Judgement	Planned response
5	<p>Related Party Transactions</p> <p>The Organisation is required to comply with the requirements of the CIPFA Code and IAS24 to disclose its transactions with related parties.</p> <p>The Organisation makes judgements about who related parties are, and whether transactions are material in line with the CIPFA Code.</p>	●	●	●	<p>We will consider the Organisation's approach to identifying its related parties, and the transactions that it has had with those related parties through the year.</p> <p>We will consider whether the disclosures are complete and accurate taking into account the process and the output from the Organisation's work.</p>



6. Value for money arrangements

Our audit approach

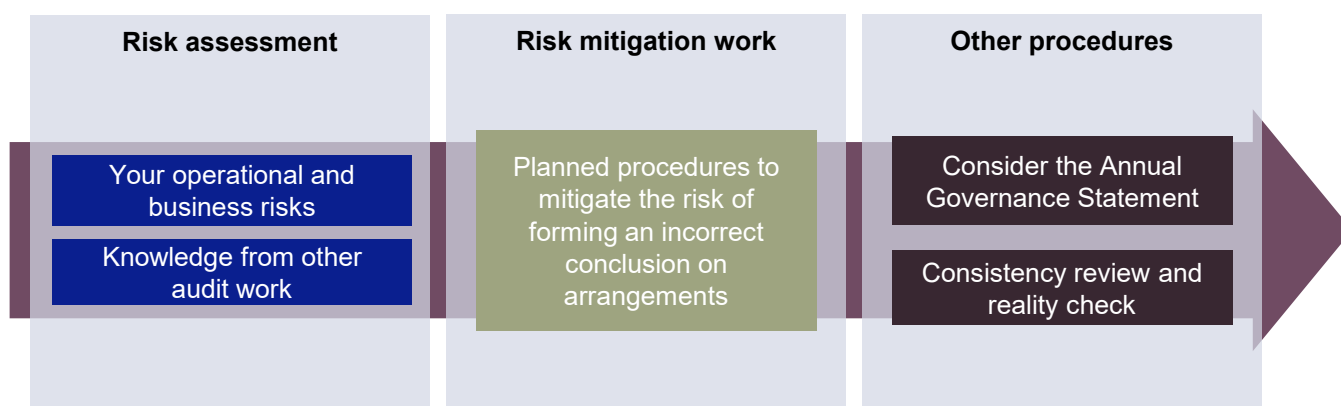
The Organisation has requested that our audit incorporates an element of Value for Money arrangements consideration.

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

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

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

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



7. Fees for audit and other services

Fees for work as the Organisation’s external auditor

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

Service	2020 fee
Non- statutory audit work	£23,000

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

- Changes to the timing of the audit work at your request. Timing for the audit will be agreed with you prior to its start. Changes to the timing of the Services usually require reassignment of members of staff and may involve us in significant unanticipated costs.
- Completed audit working papers (a) are not provided by you on the date requested and/or (b) are not mathematically correct and/or (c) are not in agreement with the appropriate accounting records. We will provide you with a separate listing of required schedules and deadlines prior to the start of the audit.
- The quality of draft financial statements provided are such that the review time is increased from that which would reasonably be expected or more than two drafts requiring review are provided as a consequence of late changes, omissions or processing errors by you.
- There is an insufficient or inadequate internal control environment or systems documentation, or weaknesses in the internal control structure which leads to the need for additional audit procedures to be performed.
- Significant new issues or changes arise during the course of the audit as follows:
 - a. Significant new accounting issues that require an unusual amount of time to resolve.
 - b. Significant changes in accounting policies or practices from those used in prior years.
 - c. Significant changes in financial systems during the year.
 - d. Significant changes or transactions that occur

prior to the issuance of our reports.

- e. Significant changes in your accounting personnel, their responsibilities, or their availability.
- f. Significant changes in auditing requirements set by professional and regulatory bodies.
- Deterioration in the quality of the accounting records during the current-year engagement in comparison with the prior-year engagement.
- Failure to provide a trial balance in financial-statement format, which references to supporting detailed working papers (by general ledger account number). Failure by you to post all entries to the trial balance prior to our receiving it. Failure by you to prepare draft financial statements that agree with the trial balance and are internally referenced to supporting documentation (for notes and cash flow statements).
- A significant level of proposed audit adjustments are identified during our audit.
- Changes in audit scope caused by events that are beyond our control.

Fees for non-audit work

We have not been engaged by the Organisation to carry out any additional work, over and above our non-statutory audit of the financial statements.

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



8. Our commitment to independence

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

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

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

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

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethical training;

- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

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

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

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



Appendix A

Forthcoming accounting and other issues

Changes relevant to 2020

There are no significant changes in International Financial Reporting Standards or the CIPFA Code that apply to 2020.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2022	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2022 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to work being required in order to identify all leases to which the Organisation is party to.</p>



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*where permitted under applicable country laws

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