

Your Ref.

Our Ref

Please Reply To Kayley Sykes
Telephone No (01924) 834912
Email kayley.sykes@ypo.co.uk
Date 28 October 2021

Chief Executive

Town Hall
Wood Street
Wakefield
WF1 2HQ

T 01924 305101; E chiefexec@wakefield.gov.uk
Typetalk calls welcome

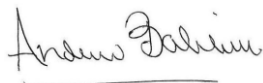
To: Members of the YPO Joint Committee Audit and Scrutiny Sub-Committee

Dear Member

YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 5 NOVEMBER 2021

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit and Scrutiny Sub-Committee which is to be held at **10:30 am on Friday, 5 November 2021 in the Wakefield Council Chambers in County Hall, Bond Street, Wakefield, WF1 2QW** 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, 5 November 2021

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 5th July 2021. (Pages 1 - 6)
6. Internal Audit Plan 2021 Progress Report. (Pages 7 - 11)
7. Year End Closedown Timetable. (Pages 13 - 15)
8. External Audit Strategy Memorandum. (Pages 17 - 49)
9. CIPFA Financial Management Guide Updates - Verbal.
10. Fraud Prevention Report. (Pages 51 - 60)
11. Exclusion of the Public and Press
“That the public and press be excluded from the meeting during consideration of agenda items 12 - 13 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended”.

IN PRIVATE

12. Declaration of Interests Update. (Pages 61 - 64)
13. Third Party Logistics Costings Update. (Pages 65 - 67)
14. Date of Next Meeting.
4th March 2022.

YORKSHIRE PURCHASING ORGANISATION**AUDIT & SCRUTINY SUB-COMMITTEE****MONDAY, 5TH JULY 2021****Present:** The Chair: Councillor Mackenzie (North Yorkshire)

Councillors: Barnard (Barnsley), Barnes (Calderdale), Cole (Doncaster)

1.	CHAIR'S INTRODUCTION & WELCOME
	Councillor Mackenzie welcomed all parties to the meeting.
2.	ACCEPTANCE OF APOLOGIES FOR ABSENCE
	No apologies for absence received, as the meeting was agreed to take place with quorate numbers only.
3.	MEMBERS DECLARATION OF INTEREST
	No declarations of interest were made.
4.	URGENT ITEMS
	No urgent items were raised.
5.	PREVIOUS MINUTES (AUDIT & SCRUTINY SUB COMMITTEE)
	The minutes of the YPO Audit & Scrutiny Sub-Committee held on 5 th March 2021 were approved by all.
6.	AUDIT & SCRUTINY SUB COMMITTEE TERMS OF REFERENCE & WORK PROGRAMME 2021-2022
	<p>Consideration was given to the report of the Managing Director which provided members with an overview of the work scheduled for the 2021/22 committee cycle.</p> <p>Simon Hill reiterated that if there are any other specific areas of concern, Members can request reports to come back to this committee.</p> <p>The report also proposed the Terms of Reference, Principal Agenda Items, 2021/22 Meeting Schedule and Training Plan.</p> <p>Resolved – (1) That the report be noted and submitted to the Management Committee on 23rd July for sign off by all Members.</p>
7.	EXTERNAL AUDIT REPORT
	Alastair Newall (Mazars) shared the draft External Audit completion report

	<p>from Mazars.</p> <p>Alastair shared the highlights of the report and noted that the audit is still in progress. Alastair shared the challenges around remote audits.</p> <p>A discussion was held around the stock balance discrepancies highlighted in the report. Last year the number found was lower, so it was not reported on in the audit report.</p> <p>Simon noted that the analysis is something the Board agree with. The new Directors have expertise in these areas (Operations and Finance) and have been recruited partly in response to this.</p> <p>Alastair noted that Mazars will follow up on the recommendations next year. A completion letter will also be submitted, and this will report on any outstanding issues.</p> <p>Alastair noted that Mazars have a good relationship with the YPO finance team. There are no issues with them responding to audit requests.</p> <p>A discussion was held around the layout of the accounts and whether the format could be changed. It was agreed a paper on this would come to a future Management Committee.</p> <p>Resolved – (1) That the report be noted.</p> <p>(2) A paper on the layout and format of the YPO accounts to be taken to a future Management Committee.</p>
8.	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 2020.</p> <p>Cllr Mackenzie noted his agreement with putting all the losses into the 2020 financial year.</p> <p>It was noted that if anything changes significantly on the accounts, they will be brought back to Chair before being submitted to Management Committee.</p> <p>Resolved – (1) That the Audited Statement of Accounts for 2020 are to be submitted to the Management Committee on 23rd July for approval.</p>
9.	POLICIES & PROCEDURES REVIEW
	<p>Consideration was given to a report of the Managing Director entitled Policies & Procedures 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>Cllr Barnes raised a question relating to the number of declarations of interest completed.</p> <p>Resolved - (1) That Members note the contents of the table at appendix 1.</p> <p>(2) It was agreed for Declarations of interests to be followed up and the amount outstanding to be reported on again in the next meeting.</p>
10.	BRIBERY RISK ASSESSMENT
	<p>Simon Hill shared the Bribery Risk Assessment report. The updated risk assessment helps to strengthen our risk management arrangements and provides the Board and Members with an opportunity to review them.</p> <p>Jon Towler raised a question around the processes in place to ensure certain members of staff are not at risk of bribery in relation to contracts. Simon confirmed there are processes in place to mitigate this risk. It was agreed to bring further information to a future Board meeting so the Independent Directors can review.</p> <p>Resolved – (1) That the Bribery Risk Assessment be noted.</p> <p>(2) Agreed for a report on the processes in place around the bribery risk for contracts to come to a future Board meeting.</p> <p>(3) Agreed for a report on fraud to come to the next Audit & Scrutiny sub-committee.</p>
11.	CIPFA FINANCIAL CODE SELF-ASSESSMENT
	<p>Consideration was given to the report presented by the Head of Finance. YPO has carried out a self-assessment of financial management and this has been reviewed independently by Wakefield Council.</p> <p>Simon shared two recommendations arose from the self-assessment, and this paper updates Members on these. Both recommendations have been actioned and are being worked on.</p> <p>Resolved – (1) That the report be noted.</p>
12.	DRAFT ANNUAL INTERNAL AUDIT PLAN 2021
	<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 2021.</p> <p>Jason Brook explained the key areas of the audit.</p>

	<p>Jon Towler asked for clarity on the reference to a new WMS system. Simon Hill noted that due to the implementation of the Nav system, there were also changes to the front screens of the WMS.</p> <p>It was agreed for Jason to work with Julie Hawley and Matthew Hirst on a robust map of walk throughs, which will support with the internal audit plan.</p> <p>Resolved – (1) That the report be noted.</p>
13.	EXCLUSION OF THE PUBLIC AND PRESS
	<p>Resolved – That the public and press be excluded from the meeting during consideration of agenda items 14 - 17 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.</p>
14.	ANNUAL INTERNAL AUDIT OPINION 2020
	<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 2020.</p> <p>Jason Brook talked through the key headlines of the report and noted that the findings of the Hatmill report have been linked into this.</p> <p>It was noted that senior management have accepted the audit recommendations. Simon noted we just need to work out the way forward for the business continuity audit.</p> <p>Rob McWilliam suggested that the Independent Directors be used to support. Time can be used at the monthly board meetings, and Independent Directors can feed back to Internal audit where required.</p> <p>Resolved – (1) That the Internal Audit Opinion Report be noted.</p> <p>(2) It was agreed that the nominated Committee to track a formal action plan following the production of the Annual Governance Statement would be the Audit & Scrutiny Sub Committee.</p> <p>(3) That the Executive Sub Committee would receive increased strategic performance reporting, particularly for non-financial matters.</p> <p>(4) It was agreed that the Audit & Scrutiny Sub Committee will review the full Strategic Risk Register at least one per annum.</p> <p>(5) It was agreed that deep dives would take place on any areas identified as a major risk.</p> <p>(6) It was agreed that the YPO Directors will review the template documents offline with support from Internal Audit.</p>

	<p>(7) It was agreed that Internal Audit would support YPO offline to investigate how we can better utilise the skills and expertise of officers working in member authorities.</p> <p>(8) Members note the outcome of the latest periodic self-assessment on conformance to the Public Sector Internal Audit Standards.</p> <p>(9) YPO Directors to encourage the completion of client satisfaction questionnaires by officers at the YPO following the completion of internal audit work.</p>
15.	THIRD PARTY LOGISTICS UPDATE
	<p>Consideration was given to a report of the Head of Logistics which provides members with an update on the action taken to mitigate the risks created by the imposed revision to YPO's 3rd Party Logistics (3PL) contracts.</p> <p>Simon Hill shared the key headlines of the report and shared what is now in place.</p> <p>Councillors welcomed having multiple third-party logistics suppliers going forward.</p> <p>Jon Towler noted that the priority now is that we need to understand our needs and requirements going forward.</p> <p>Resolved – (1) That the Third-Party Logistics Update Report be noted.</p> <p>(2) It was agreed that an analysis on actual costs would be brought back to the next meeting.</p>
16.	REVIEW OF YPO'S CONTRACTUAL ARRANGEMENTS
	<p>Simon Hill (Managing Director) shared the Contractual arrangements review paper, which updates members on the contract review recently carried out, and the potential risks identified during that process.</p> <p>In conducting the review, 171 supplier relationships (across 351 frameworks or contracts) have been reviewed.</p> <p>Resolved – (1) That the recommendations detailed in the report were agreed by Members.</p> <p>(2) It was agreed that an update on this will come back to this committee on an annual basis.</p>
17.	LINK UPDATE REPORT (EXEMPT – PARAGRAPH 3)
	<p>Consideration was given to the report of the Managing Director (Simon Hill), which provided Members with an update on the Link system. The full findings report is also attached.</p>

	<p>Simon noted that 20 out of the 27 recommendations have been closed. The 7 remaining will be closed by Quarter 3, and they are low level issues.</p> <p>Resolved – (1) That the update be noted.</p>
18.	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 5th November 2021, 10.30am.</p>



YPO

AUDIT & SCRUTINY SUB COMMITTEE

TO BE HELD ON

5TH NOVEMBER 2021

TITLE: PROGRESS ON THE 2021 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 Committee 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. 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 2021 Internal Audit Plan.
- 1.2 The report also gives members the opportunity to raise any additional risk areas that they

2 BACKGROUND INFORMATION

- 2.1 The report, attached as Appendix A, records details of the progress against the agreed audit plan for 2021.
- 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 2021 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 2021 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
E-mail address: jcousins@wakefield.gov.uk

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 31 October 2021

REPORT OF: Jason Brook, Service Manager for Internal Audit & Risk (Wakefield Council)
Telephone No: 01924 306054
E-mail address: jasonbrook@wakefield.gov.uk

Julie Cousins, Principal Audit Manager - Internal Audit & Risk (Wakefield Council),
Telephone no: 07833236970
Email address: jcousins@wakefield.gov.uk

PURPOSE OF REPORT

1. The purpose of this report is to present to the Audit and Scrutiny Sub Committee, details of Internal Audit's performance and work in relation to the 2021 Audit Plan.

PROGRESS ON THE 2021 AUDIT PLAN

2. The audit plan that was agreed by Audit and Scrutiny Sub Committee on 2 July 2021 is now underway.
3. The following table provides a progress update as at 31 October 2021 against the agreed Audit Plan for 2021. A verbal update will be provided at the Audit and Scrutiny Sub Committee meeting.

Audit Area	Type of Audit	Brief Summary	Position as at 31/10/2021
Section 151 Assurance Work			
Budgetary Control	Key Financial System	To gain assurance that the budgetary control process is operating effectively.	Audit testing is underway.
Main Accounting System	Key Financial System	To gain assurance that the Main Accounting System is operating effectively, with a focus on credit notes/refund processes.	Audit will commence early November 2021.
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 has offered 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.	The Risk Manager has completed Stage 1 of the Business Continuity Arrangements audit during the period.
Governance and Risk-Based Work			
Adherence to legislation	Risk Based	To provide assurance over Health and Safety risk areas ensuring compliance with key policies and legal frameworks, with a focus on the effective record management of training records in Health and Safety.	Audit planning underway with key contact.
Business Continuity arrangements – contract break clauses	Risk Based	Two stage audit process: 1. Q2 2021 – assist YPO in identifying the key contractual arrangements/single points of failure on which it relies and ensure that these are reflected in operational and strategic risk registers including contract break clauses.	Stage 1 – Draft report issued. Stage 2 – will be completed before year end.

Audit Area	Type of Audit	Brief Summary	Position as at 31/10/2021
		2. Q4 2021 – check that the controls in place to mitigate the risks identified in stage 1 are operating effectively.	
Stock Control	Risk-Based	To focus on ensuring effective controls are in place to manage stock control and alignment for accounting purposes.	Audit planning underway with key contact.
Warehouse Management System	Risk-Based	A review is required of the newly implemented Warehouse Management System to gain assurance that effective controls are in place.	Audit will commence early November 2021.

SUMMARY

4. 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 2022.

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YPO

AUDIT & SCRUTINY SUB COMMITTEE

TO BE HELD ON

5th NOVEMBER 2021

TITLE: YEAR END CLOSE OF ACCOUNTS AND AUDIT 2021

REPORT OF: HEAD OF FINANCE

1. PURPOSE OF REPORT

- 1.1 To approve contents of the 2021 closedown timetable and agree to the arrangements for the 2021 Statement of Accounts.

2. BACKGROUND INFORMATION

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

3. RECOMMENDATIONS

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

SERVICE DIRECTOR: JULIE HAWLEY, EXECUTIVE DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

E-mail address: julie.hawley@ypo.co.uk

CONTACT OFFICER: MATTHEW HIRST, HEAD OF FINANCE

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821740

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

APPENDIX

Appendix 1 - Closedown timetable 2021 and Audit plan key dates.

Appendix 1 – Closedown timetable 2021 and Audit plan key dates

Task	Deadline	Responsible
*Interim audit	Dec 21 / Jan 22	MAZARS / YPO
Close of 2021-year end	04/01/2022	YPO
Completion of 2021 Annual Governance Statement	21/01/2022	YPO / WMDC
Receipt of Pensions data	21/01/2022	YPO
*Production of Mazars working file	31/01/2022	YPO
Pre audit statement agreed with s151 officer	11/02/2022	YPO / WMDC
Pre audit statement to Audit & Scrutiny Sub Committee	04/03/2022	Audit & Scrutiny Sub Committee
*Final Audit fieldwork	Mar 2022	MAZARS / YPO
*Letter of representation & report to those charged with governance	31/03/2022	MAZARS / YPO
Audited statement of accounts agreed with s151 officer	31/03/2022	YPO / WMDC
*Audit opinion and VFM conclusion	31/03/2022	MAZARS
Approval of the audited statement of accounts	01/07/2022	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

Year ending 31 December 2021



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- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Materiality and misstatements
- 06** Fees for audit and other services
- 07** Our commitment to independence

Appendix A – Key communication points

This document is to be regarded as confidential to the Yorkshire Purchasing Organisation. It has been prepared for the sole use of the Audit & Scrutiny Sub-Committee and Management Committee as the appropriate body charged with governance. 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.

19 October 2021

Dear Audit & Scrutiny Sub-Committee Members

Audit Strategy Memorandum – Year ending 31 December 2021

We are pleased to present our Audit Strategy Memorandum for YPO for the year ending 31 December 2021. 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 Stockport NHS Foundation Trust which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains specific appendices that outlines our key communications with you during the course of the audit, Client service is extremely important to us and we strive to 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
Mazars LLP

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

Tel: 0113 394 2000 – www.mazars.co.uk

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We are registered to carry on audit work in the UK 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

01

Section 01:

Engagement and responsibilities summary

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.



Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Management Committee, as those charged with governance, of their responsibilities.



Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.



Going concern

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

It is therefore required to prepare its financial statements on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- a) whether a material uncertainty related to going concern exists and
- b) the appropriateness of the Organisation's use of the going concern basis of accounting in the preparation of the financial statements.



02

Section 02:

Your audit engagement team

2. Your audit engagement team



Craig Maxwell

Audit Partner

Email: craig.maxwell@mazars.co.uk

Telephone: 07881 283732

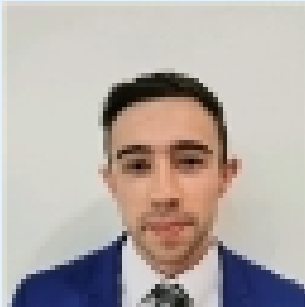


Alastair Newall

Audit Senior Manager

Email: alastair.newall@mazars.co.uk

Telephone: 07909 986776



Jordan Townend

Audit Assistant Manager

Email: jordan.townend@mazars.co.uk

Telephone: 0113 394 5341



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit 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 impacted 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 a risk based and is primarily driven by the risks we consider to result in 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 5.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



3. Audit scope, approach and timeline

The timeline below is based on our initial discussions with the Organisation. Should the timetable change we will update management and the Audit & Scrutiny Sub-Committee.

Planning (October/November 2021)

- Initial opinion risk assessments
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim (December/January 2022)

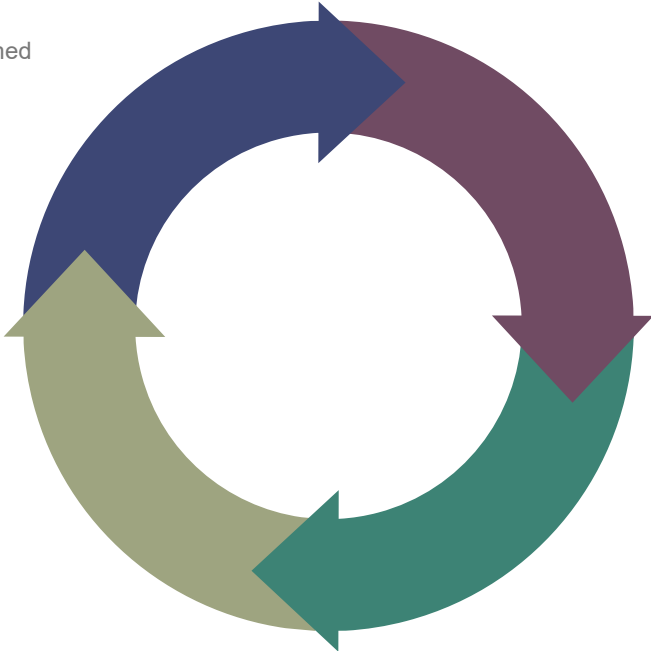
- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

Completion (April/May 2022)

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Audit & Scrutiny Sub-Committee
- Reviewing subsequent events
- Signing the auditor's report

Fieldwork (March/April 2022)

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting



3. Audit scope, approach and timeline

Reliance on internal audit

We will seek to utilise the work performed by internal audit to inform our risk assessment. 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 may determine that it is appropriate to modify the nature or extent of our audit testing based on the outcomes of this liaison.

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.

Item 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 (UK) (ISAs) define service organisations as third party organisations that provide services to the Trust 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 Trust 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.



04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other 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. The definitions of the level of risk rating are given 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.

Significant risks may also be key audit matters.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), 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. Standard risks will not normally be key audit matters as defined below.



4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Trust, identifying those that are considered key audit matters ('KAMs'). We have summarised our audit response to these risks on the next page.



4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. 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 & Scrutiny Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p>Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</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. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</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; • journal entries; and • significant transactions outside the normal course of business or otherwise unusual.



4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	<p>Risk of fraud in revenue recognition The risk of fraud in revenue recognition is presumed to be a significant risk on all audits 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.</p> <p>For the Organisation we deem the risk to relate specifically to the recognition of income around the year end.</p>	●	○	●	We will evaluate the design and implementation of controls the Organisation has in place which mitigate the risk of income being recognised in the wrong year. In addition we will undertake a range of substantive procedures including: <ul style="list-style-type: none"> • Evaluating the Organisation’s accounting policy in respect of revenue recognition to ensure that it is in line with the requirements of the CIPFA Code, and • Testing a sample of revenue by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.



4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	<p>Valuation of property, plant and equipment The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date.</p> <p>YPO engage an external valuation expert to 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.</p>	○	●	●	<p>We will evaluate the design and implementation of any controls which mitigate the risk. In addition our procedures will include:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust. • Obtaining an understanding of the basis of valuation applied by the valuer in the year. • Sample testing the completeness and accuracy of underlying data provided by the Organisation and used by the valuer as part of their valuations. • Testing the accuracy of how valuation movements were presented and disclosed in the financial statements. • Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2021.



4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
4	<p>Valuation of Defined Benefit Net Pension Liability 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 and non-financial assumptions used in the calculation of the valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should reflect the profile of the Organisation’s employees, and be based on appropriate data.</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>Our audit procedures will include:</p> <ul style="list-style-type: none"> Obtaining an understanding of the skills, experience and qualifications of the actuary, and considering the appropriateness of the instructions to the actuary from the Organisation. Obtaining confirmation from the auditor of the West Yorkshire Pension Fund that the controls in place at the Pension Fund are free from material deficiencies. Reviewing a summary of the work performed by the Pension Fund auditor on the Pension Fund investment assets, and evaluating whether the outcome of their work would affect our consideration of the council’s share of Pension Fund assets. Reviewing the actuarial allocation of Pension Fund assets to the Council by the actuary, including comparing the Council’s share of the assets to other corroborative information. 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 obtaining assurance from our internal Actuarial experts. 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.



4. Significant risks and other key judgement areas

Other key judgement areas

	Description	Fraud	Error	Judgement	Planned response
5	<p>Impairment of inventory and financial assets The Organisation has material levels of inventories and debtors and under the CIPFA Code are required to consider whether the year end balances require impairment. The consideration of impairment for assets is a key management judgement and involves assumptions about the likely recoverable amount for the asset.</p>	○	○	●	<p>Our audit procedures will include:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the approach the Organisation has taken in considering the impairment of inventories and debtors. • Reviewing any impairments made and underlying assumptions on recoverability. • Considering whether other evidence from the audit is consistent with the Organisation’s judgements and conclusions.



4. Significant risks and other key judgement areas

Other key judgement areas (continued)

	Description	Fraud	Error	Judgement	Planned response
6	<p>Going concern The Organisation continues to face financial challenges to deliver its growth projections and deliver sustainable financial growth over the medium term.</p> <p>The Organisation’s management applies its judgement in determining whether the financial statements are prepared on the going concern basis, and uses available supporting projections and forecasts to inform that judgement.</p>	○	○	●	<p>In forming our conclusion relating to going concern, our procedures will include:</p> <ul style="list-style-type: none"> Assessing the Organisation’s judgements relating to its consideration of going concern. Reviewing the Organisation’s financial plan for the period 12 months beyond the date of signing the financial statements, including cash flow forecasts and underlying assumptions. Assessing the appropriateness of the going concern disclosures in the financial statements.



Section 05: **Materiality and misstatements**

5. 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.

Our provisional materiality is set based on a benchmark of gross operating expenditure. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that gross operating expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at around 2% of gross revenue turnover.

Based on the 2020 audited financial statements we anticipate the overall materiality for the year ending 31 December 2021 to be in the region of £2m.

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.



5. Materiality and misstatements

Materiality (continued)

Misstatements

We accumulate 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. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £60,000 based on 3% of overall materiality

Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

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



06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for audit and other services

Area of work	2021 Proposed Fee
Non-statutory audit work	TBC

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 7.



07

Section 07:

Our commitment to independence

7. 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 FRC'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.

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; and
- 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, 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.

Principal threats to our independence and identified associated safeguards are set out in our engagement letter. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.



A

Appendices

A: Key communication points

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum; and
- Our Audit Completion Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;

- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.



Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum including the engagement letter
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks/ key audit matters.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud. 	Audit Completion Report and discussion at Audit Committee, Audit Planning and Clearance meetings

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Not for publication



Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Trust Board or the Audit Committee in the context of fulfilling their responsibilities. 	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



Appendix A: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report and Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements. 	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms</p>	<p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>



Mazars

5th Floor, 3 Wellington Place

Leeds

LS1 4AP

Tel: 0113 394 2000

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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YPO

AUDIT & SCRUTINY SUB-COMMITTEE

TO BE HELD ON

5TH NOVEMBER 2021

TITLE: FRAUD PREVENTION REPORT

REPORT OF: MANAGING DIRECTOR

1. BACKGROUND INFORMATION

- 1.1 YPO has a broad framework in place to help to minimise the risk of fraud and to manage fraud discovery, reporting and investigation. The framework includes a number of policies, reporting procedures, and training to help staff to recognise and respond to potential frauds. YPO risk registers include consideration of the risk of fraud. Internal Audit provide assurance on fraud risk controls, and specialist support for fraud reporting and investigation, as well as liaison with external organisations such as the Police and Action Fraud the UK national fraud reporting centre. Third party support is also available for other specific types of fraud, including cyber and banking fraud, and insurance.
- 1.2 To our knowledge, YPO has suffered one significant fraud and a number of smaller frauds in the last 10 years. In 2012 we had a supplier related diverted payment fraud, and in 2014 an employee related diverted payment fraud. In 2016 there were two procurement related frauds (goods ordered and delivered but not paid for). In 2017 we had a bank phishing fraud, the most significant to date in terms of financial loss and impact on the organisation. Fortunately the bank was able to recover some of the diverted funds and we had insurance in place which replaced the balance (less excess). YPO reported and investigated the fraud in accordance with its Fraud Response Plan. The fraud was also investigated by the bank, Internal Audit and West Yorkshire Police.
- 1.3 Following these frauds, policies and procedures were reviewed and strengthened and additional training and awareness raising was put in place. We have no indications of further successful frauds but attempts to defraud are made and staff remain vigilant. Employees in Customer Services and the Accounts Payable Team in Finance identify and report an attempt at procurement or diverted payments frauds every one to two months on average. IT continuously monitor and respond to cyber fraud attempts and have recently started to publish a cyber security newsletter with a strong focus on social engineering fraud (vishing, phishing and smishing).
- 1.4 The main elements of the fraud prevention framework are set out in Appendix 1 to the report. Some measures are designed to manage the risk of external (third party) fraud; some to manage the risk of internal (employee) fraud; and some to manage the risk of collaborative fraud. The Anti-Fraud & Bribery Policy makes clear that all staff have a

responsibility to act with propriety and to report fraud or suspected fraud immediately.

2. STRATEGIC IMPLICATIONS

2.1 Fraud diverts resources from legitimate activity. It also causes a loss of faith. Fraud prevention is essential to the delivery of our long-term strategy and objectives.

3. FINANCIAL/RESOURCE IMPLICATIONS

3.1 There are no specific financial or resource implications arising from this report.

4. LEGAL IMPLICATIONS

4.1 YPO is responsible for ensuring that it complies with all relevant legislation and regulation including Fraud Act, Bribery Act, Money Laundering regulations etc.

5. RISK IMPLICATIONS

5.1 YPO's business and the incidence and growth of fraud globally means we are always at risk of fraud, need to be alert to it, and maintain controls to minimise the risk.

6. CONSULTATION

6.1 The Head of Finance, Head of HR, and Head of Technology have been consulted on this report.

7. OPTIONS APPRAISAL

7.1 Not required.

8. RECOMMENDATIONS

8.1 That Audit & Scrutiny Sub Committee review the Fraud Prevention Framework set out in Appendix 1 and the Raising Fraud Awareness Leaflet at Appendix 2 and identify any further information or reports, if required.

9. REASONS FOR RECOMMENDATIONS

9.1 Fraud prevention is a key element of YPO's business, and we maintain a zero tolerance of any fraudulent behaviour. We have a broad framework in place, but fraud is a dynamic area and there is always scope to improve our response.

SERVICE DIRECTOR: SIMON HILL, MANAGING DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834912

E-mail address: simon.hill@ypo.co.uk

CONTACT OFFICER: ANDREA HIRST-GEE, ASSISTANT FINANCIAL CONTROLLER

YPO

41 Industrial Park

Wakefield

WF2 0XE

Telephone No: 01924 821740

E-mail address: andrea.hirst-gee@ypo.co.uk

Appendix 1 Fraud Prevention Framework

The policies, procedures, processes, and other measures set out below are not an exhaustive list but are the key elements of YPO's Fraud Prevention Framework.

HR Led Fraud Prevention Measures

HR maintain a number of policies that help to manage the risk of fraud. These include:

- Recruitment & Selection Policy and Procedures
- Employee Code of Conduct
- Disciplinary Procedures
- Employee Interests and Gifts & Hospitality Declarations and Registers
- Whistle Blowing Policy. Whistle blowing is the disclosure or communication of information about malpractice by individuals or organisations to a body or person having the potential to rectify it. The policy aims to provide employees (but also third parties including contractors) with a confidential means of raising concerns, taking matters further, and being protected from possible reprisals or victimisation.
- Learning & Development also maintain and provide access to mandatory training courses on key areas of fraud risk and prevention.

IT Led Fraud Prevention Measures

IT are responsible for key fraud prevention measures including:

- Use of IT Policy (including physical and electronic controls around hardware, software, systems, and data)
- Procedures around data protection, data processing, and data management
- YPO website security
- Cyber and online security and fraud. IT maintain an extensive network of technical and other controls to minimise the risk of hacking, virus attacks, ransomware, and social engineering.
- Social engineering, sometimes known as 'human hacking' is a manipulation technique that exploits human error to gain access to systems, data, and other assets. Attacks can happen in person but most happen online through vishing, phishing, and smishing techniques. A typical feature of such attacks is to persuade an employee to click on a link in what appears to be a legitimate message, that then gives the fraudster access to networks, systems, and data.
- IT work in partnership with a third party who carry out proactive regular tests of our systems and staff. If staff fail a phishing test (they click on a link in a test email) they are immediately directed to additional training and will be prioritised for subsequent tests.
- Since August 2021 IT have been issuing a monthly Cyber Security Newsletter to raise increased awareness of the risks of cyber-attack and fraud.

Finance & Contracts Led Fraud Prevention Measures

Finance and Contracts maintain the following measures:

- Standing Orders for Contracts
- Financial Procedure Rules
- Code of Corporate Governance, Annual Governance Review and Statement
- Financial management systems, procedures, records, data, and their control

- Card Payment Receipts Security Procedure and Payment Card Manual (includes controls on the use and management of personal and customer financial data)
- Annual compliance checks to ensure that a range of policies, procedures and controls have been complied with (including Employee Interests, Gifts & Hospitality, IA Actions)
- Risk management framework and the reporting of fraud risk. Fraud risk is profiled on YPO's Strategic Risk Register. Ref Q1 2021 SSR-17 sets out factors for deliberate and inadvertent fraud risk; consequences; control measures; and risk triggers (looking outwards to see what attacks and frauds similar organisations are suffering). SSR-17 is currently rated as Medium / High (Amber) and risk control measures as Fair / Good.
- Fraud risk is also profiled on Finance & Contracts Operational Risk Register. FIN-009 profiles risk factors around banking fraud; diverted funds fraud; procurement fraud; false accounting, documents, and records; and theft of cash, stock, and other assets. The risk rating is Medium / High (Amber).
- IT & Business Change Operational Risk Register profiles risks around hacking, malware / ransomware (IT-003 rated Amber) and data breach or loss (IT-004 rated Red / High).
- Contracts Team provide a review and compliance function for all contracts and maintain their own risk register of areas of concern.
- Anti-Fraud & Bribery Policy: the policy sets out YPO's expectations of its employees and associated persons (those who represent YPO or perform services on our behalf) with regard to standards of openness, integrity, probity, and accountability, and YPO's commitment to zero tolerance of fraudulent behaviour. The policy sets out seven well established principles that summarise YPO's commitment to the elimination of fraud:
 - Culture: to create an anti-fraud, anti-bribery, zero tolerance culture
 - Deterrence: to work closely with WMDC, the Police and other external agencies to combat fraud and support national and local initiatives
 - Prevention: to design policies etc to prevent fraud and potential fraud
 - Detection: to provide appropriate mechanisms for employees to raise concerns
 - Investigation: to adopt formal procedures to investigate and report suspected or actual fraud (Fraud Response Plan – see below)
 - Sanctions: to deal with perpetrators up to and including dismissal and referral to the Police
 - Redress: to take all reasonable measures to recover money and assets
- The Policy also sets out the responsibilities of all employees; management; elected members; Monitoring Officer, Section 151 Officer / Chief Financial Officer, and Internal Audit (WMDC); External Audit; and Associated Persons.
- Fraud Response Plan: this document defines responsibilities for action, reporting lines and investigation where fraud is suspected or discovered, to ensure timely and effective action. It also sets out guidance for employees on when and how to report fraud.
- Raising Fraud Awareness at YPO: this document looks primarily at internal / employee related fraud and provides an entry into more detailed policies and procedures. It sets out what we mean by fraud; the risk of fraud; what we are doing to reduce that risk; where to find more information; and how to recognise the warning signs (the Fraud Diamond). It is attached at Appendix 2.
- Finance Team (Assistance Financial Controller) provide a point of contact and liaison with WMDC, Internal Audit and their Fraud Specialist for the reporting and escalation of fraud attempts such as procurement and diverted payment frauds.
- Finance Team work with Internal Audit to ensure fraud risk and assurance features in the Annual Audit Plan and key audit assignments, and that actions are followed up.
- Finance Team also provide fraud investigation and reporting skills, in-house and in collaboration with Internal Audit.

- Finance Team maintain a number of anti-fraud related insurance covers as part of the insurance portfolio (including Fidelity Guarantee, Crime and Cyber policies).
- Finance Team work with YPO's insurers and brokers to investigate potential insurance fraud (such as personal injury claims) in collaboration with HR and Transport.



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Raising Fraud Awareness at YPO

Fraud affects everyone and everyone has a role to play in fighting fraud.

Fraud costs the UK over £70 billion a year – that's more than £1,000 for every person in the country. Fraud against the private sector costs more than £45 billion every year while public sector fraud costs the taxpayer an estimated £21 billion every year. And it's a growing problem.

Fraud is often seen as a victimless crime, but it isn't. Fraud by serious and organised crime groups is linked to human trafficking, drug dealing and economic crime of more than £10 billion a year. Public sector fraud puts increasing demands on taxation and diverts vital funds away from providing services. And it's not just the financial impact. Often it's the most vulnerable in society who rely on those services.

A high proportion of public sector fraud involves employees and ex-employees. Workplace fraud places innocent employees under suspicion and can make them feel demoralised and demotivated. Fraud also puts our reputation at risk and could mean others might no longer trust us to do business with.

One of the best ways to proactively fight fraud is to raise awareness of it. This document explains:

- What do we mean by fraud?
- What's the risk?
- What are we doing to help deter, prevent and detect fraud? And what can every one of us do?
- What are the warning signs we should look out for?
- What should you do if you suspect or discover a fraud?

What do we mean by fraud?

The legal definition of fraud is given in the [Fraud Act 2006](#) and this is set out in full in our [Anti-Fraud & Bribery Policy](#) along with definitions of Bribery, Theft and Corruption. But in everyday terms:

- Fraud can be defined as doing something wrong, or not doing something you should, to get something you are not entitled to, or that causes loss to someone else, and covering this up. Examples of fraud include:
 - Bypassing authorisation procedures to claim overtime you haven't worked or expenses you haven't incurred
 - Taking advantage of poor security arrangements to steal stock or cash and altering official records to cover this up
 - Misusing vehicles, tools etc for private work because they are not monitored
 - Misusing purchasing cards because cardholders share them or leave them lying around
- Bribery can be defined as offering, promising, giving, receiving, or asking for a financial or other benefit, to encourage or reward someone to do something they shouldn't, or to not do something they should. Bribery is often linked to corruption.
- Corruption happens when a person abuses their position to make a gain for themselves or for someone else. It often involves people working together to defeat controls.



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What's the risk?

The risk of fraud is a concern to us and we are determined to reduce our exposure to fraud risk. As the largest public sector buying organisation in the UK, YPO is particularly at risk from frauds relating to theft or misuse of stock and assets, and of bribery and corruption. Bribery regulation is complex and staff need to be alert to the circumstances in which a bribe might be hinted at, offered or accepted.

We are committed to carrying out our business fairly, honestly and openly, and to maintaining the highest ethical standards. How we act, and how others act on our behalf, reflects on YPO, our standards, our good reputation and whether people have confidence and trust in us. Everyone has a role to play in maintaining those standards whether they are members, directors, employees, agents, consultants, contractors, suppliers or others we do business with. We have a policy of zero tolerance towards fraud and bribery.

What are we doing to help deter, prevent and detect fraud?

We have put in place a number of measures to help us to deter, prevent and detect fraud.

- Culture: we have a zero tolerance towards fraud and bribery and have taken steps to create an anti-fraud, anti-bribery culture
- Deter: we have put measures in place to deter potential fraudsters by convincing them that success is unlikely and that we will take action against those who defraud or try to defraud us, including working with the Lead Authority, the Police and other external agencies
- Prevent: we have put strong controls in place to address weaknesses and limit the opportunity for them to be exploited
- Detect: we carry out regular checks and reconciliations to ensure controls are operating effectively, and identify and address any weaknesses. We also provide appropriate mechanisms and support for employees to voice genuine concerns, and to protect those who do so
- Investigate: we have a formal procedure to investigate when fraud or bribery is suspected, reported or discovered (Fraud Response Plan)
- Sanctions: we will deal with fraudsters to the full extent of our disciplinary measures and have no hesitation in referring criminal activity to the police
- Redress: we will take all reasonable measures to recover money and assets

You can find more information about these measures in our:

[Employee Code of Conduct](#)

[Anti-Fraud & Bribery Policy](#)

[Card Payment Receipts Security Procedure](#)

[Contract Standing Orders and Financial Procedure Rules](#)

[Fraud Response Plan](#)

[Payment Card Manual](#)

[Register of Employee Interests](#)

[Whistleblowing Policy](#)

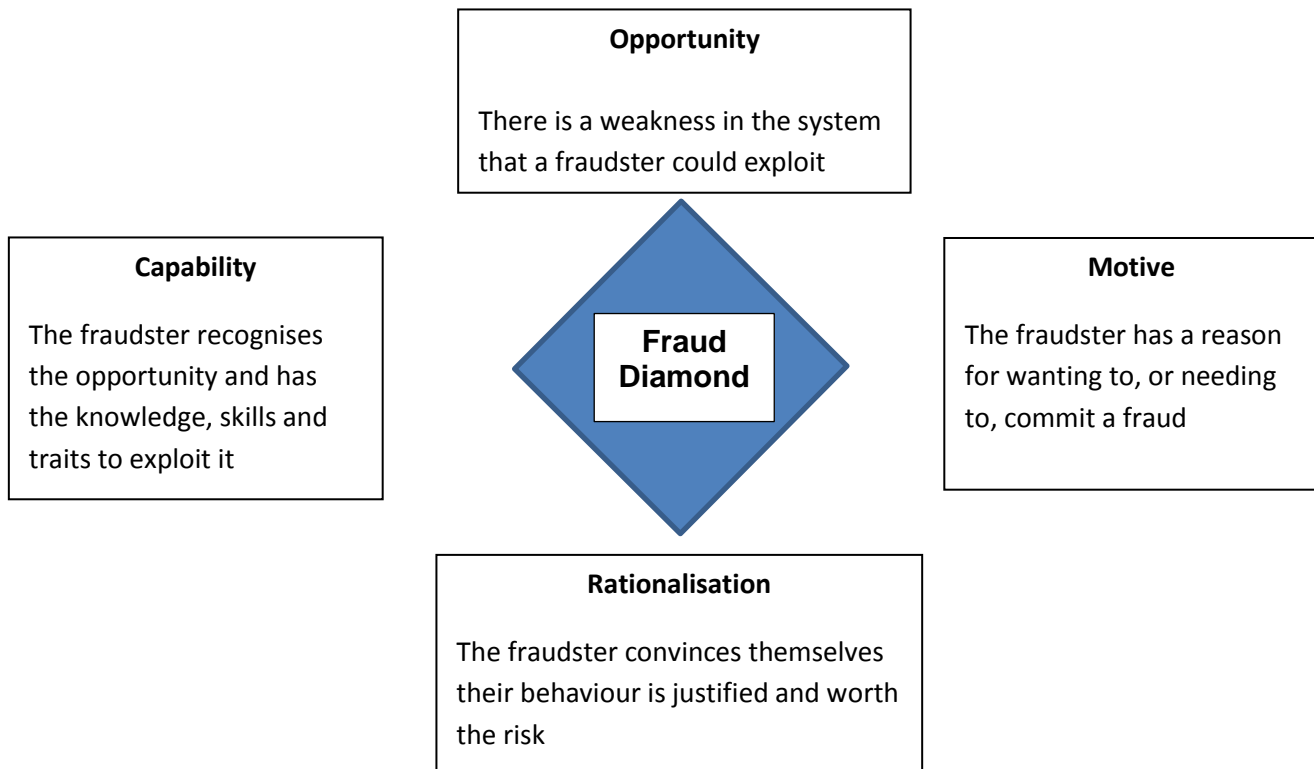
What are the warning signs we should look out for?

Everyone has a role to play in preventing and reducing the risk of fraud, whether it arises from your own behaviour or challenging that of others. In addition to ensuring you comply with all policies, procedures and controls in place you should look out for warning signs that fraudulent activity is taking place.



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Four things tend to come together for fraud to take place. This is sometimes called the 'Fraud Diamond'.



Opportunities might arise from:

- A lack of controls eg no separation of duties between handling stock and payment records
- Someone being able to bypass or defeat controls eg overriding authorisation controls
- People not applying controls they're responsible for eg stock checks, bank reconciliations

Motives might include:

- Financial worries and pressures
- Addictions such as gambling, drugs or compulsive shopping
- The thrill of being able to get away with it

Rationalisation may come from the fraudster believing that:

- They're only getting what they deserve because they are underpaid or work harder than others
- Their employer deserves to be defrauded because they haven't put proper controls in place
- They're not doing any real harm or they're just borrowing and will make it right later
- Everyone is doing it, or it's a perk of the job and nothing could be proved against them anyway

Capability includes:

- Having enough knowledge of the system and how the controls should work to take advantage of a weakness and to cover up their actions, eg by creating false records
- Having the personality traits needed to commit a fraud in the first place (some people would never commit a fraud no matter what the opportunity or motive, some would always commit a fraud given the opportunity, and for some it would depend on the risk and the potential reward)
- Having the confidence and resilience to carry it off, to lie if challenged or questioned.



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In practice, it's difficult not to let things show over a long period of time and understanding the Fraud Diamond may help you to pick up when things don't seem quite right, when people are behaving oddly, when records don't look correct, or when explanations don't make sense.

Listed below are some examples of odd or suspicious behaviour that might be warning signs fraudulent activity is going on. You should be especially concerned if you see more than one of these signs in combination with each other. Watch out for people who:

- Encourage a domineering environment where staff are scared to question anything and where new staff appear to be uncomfortable or resign quickly
- Have frequent complaints made against them
- Fail to comply with rules and procedures, or don't think they apply to them, or often take risks
- Are too cosy with suppliers or contractors and insist on dealing with a particular member of staff
- Tend to come in early or work late or in other ways that avoid observation eg in a locked office
- Are reluctant to take leave or a promotion
- Are frequently offered and accept gifts and hospitality
- Have unexplained wealth or a sudden change in lifestyle or have financial worries
- Have lots of external business interests
- Always look stressed but are not overworked
- Show personality changes eg they become unduly nervous, abrupt or evasive

What you should do if you suspect or discover a fraud?

If you suspect that fraud or bribery is about to take place, is taking place, or has taken place, you should raise your concerns as soon as possible. In the first instance you should inform your line manager, Head of Department, a Member of the Board or HR. If it's not appropriate to inform your manager or Head of Department because it may involve them, or you feel uncomfortable doing so, you can contact the Monitoring Officer, Section 151 Officer or Internal Audit at the Lead Authority. You can also use the [Fraud Hotline](#). You can report your concerns verbally or in writing, and if you prefer you can report them anonymously. All reports will be treated in the strictest confidence.

We recognise that the decision to report a concern can be a difficult one to make, not least because of fear of reprisal from those who may be guilty of malpractice or from YPO as an organisation. Anyone who reports a concern on reasonable grounds and in good faith can do so without fear of reprisal or victimisation, including informal pressure, in accordance with the [Whistleblowing Policy](#) whether or not claims are later substantiated.

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