

Your Ref.
Our Ref

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Date 23 June 2022

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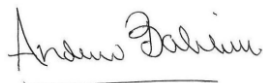
To: Members of the YPO Joint Committee Audit and Scrutiny Sub-Committee

Dear Member

YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 1 JULY 2022

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit and Scrutiny Sub-Committee which is to be held at **10:30 am on Friday, 1 July 2022 in the YPO Headquarters** 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, 1 July 2022

AGENDA

1. Election of a Temporary Chair.
2. Chair's Introduction and Welcome.
3. Acceptance of Apologies for Absence.
4. Members' Declaration of Interest.
5. To note any items which the Chair has agreed to add to the agenda on the grounds of urgency.
6. To approve, as a correct record, the Minutes of the Meeting of the Audit & Scrutiny Sub-Committee held on 4th March 2022. (Pages 1 - 4)
7. External Audit Completion Report. (Pages 5 - 46)
8. Audited Statement of Accounts. (Pages 47 - 88)
9. Annual Assurance Opinion 2021. (Pages 89 - 117)

YORKSHIRE PURCHASING ORGANISATION

AUDIT & SCRUTINY SUB-COMMITTEE

FRIDAY, 4TH MARCH 2022

Present: The Chair: Councillor Mackenzie (North Yorkshire)

Councillors: Barnard (Barnsley), Cole (Doncaster), Wyatt (Rotherham)

1.	CHAIR'S INTRODUCTION & WELCOME
	Councillor Mackenzie welcomed all parties to the meeting.
2.	ACCEPTANCE OF APOLOGIES FOR ABSENCE
	Apologies for absence were received on behalf of Councillors Lomas (York), Barnes (Calderdale), Williams (Wakefield), Uppal (Kirklees), Davies (Kirklees), Prescott (Wigan), Nightingale (Doncaster), Haslam (Bolton).
	And: Gillian Marshall (Wakefield), Jon Towler (Independent Director), and Jo Marshall (YPO).
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 November 2021 were approved by all.
6.	ANNUAL GOVERNANCE STATEMENT & LOCAL CODE OF CORPORATE GOVERNANCE
	The Managing Director (Simon Hill) noted that although a review of governance is currently underway, the papers on today's agenda remain business as usual.
	The Executive Director (Julie Hawley) shared the report of the Head of Finance which presents the first draft of the Annual Governance Statement (AGS) 2021 for consideration. The Local Code has been reviewed and no changes are proposed at this time.
	Resolved - (1) That the Annual Governance Statement & Local code of corporate governance be approved.
7.	REVIEW OF FINANCIAL PROCEDURE RULES

	<p>Consideration was given to the Review of Financial Procedure Rules.</p> <p>The Financial Procedure Rules have been reviewed to ensure compliance with the current law, and no changes are currently proposed.</p> <p>Resolved – (1) That the Review of Financial Procedure Rules be noted.</p>
8.	GIFTS AND HOSPITALITY
	<p>Consideration was given to the Gifts and Hospitality report presented by the Executive Director.</p> <p>As part of its Anti-Fraud and Bribery Framework, YPO maintains a Gifts and Hospitality register as part of the policy which employees must follow.</p> <p>Resolved – (1) That the report be noted.</p>
9.	EMPLOYEE INTERESTS
	<p>The Executive Director shared a report detailing the Employee Declarations of Interest Policy.</p> <p>Resolved – (1) That the Audit & Scrutiny Sub-Committee note progress on the roll out of the new system and processes, update to the policy, and compliance across YPO.</p>
10.	INTERNAL AUDIT UPDATE REPORT
	<p>The Service Manager for Internal Audit & Risk (Jason Brook) talked through the Internal Audit update report. 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.</p> <p>Members asked a number of questions and were satisfied with the responses provided.</p> <p>Resolved – (1) That the Internal Audit Update Report be noted.</p>
11.	DRAFT INTERNAL AUDIT PLAN 2022
	<p>The Service Manager for Internal Audit & Risk shared the draft Internal Audit plan for 2022.</p> <p>The report details the proposed Internal Audit Plan for 2022. The purpose of the report is to share the draft internal audit plan with key stakeholders to ensure that effective engagement has taken place throughout the planning process.</p> <p>The Managing Director explained that we are in the process of proactively</p>

	<p>reviewing the whole supply chain for any risks, but there are currently no short-term risks relating to supply from Ukraine.</p> <p>Councillors asked several questions and were satisfied with the responses from Officers.</p> <p>Resolved – (1) That the Internal Audit Plan for 2022 be recommended for approval by the Management Committee.</p>
12.	INTERNAL AUDIT ACTIONS UPDATE
	<p>Consideration was given to a report which provided an update as to the progress made towards actions resulting from internal audits completed at YPO, as part of the Annual Audit Plan by Wakefield Council's Internal Audit.</p> <p>Resolved – (1) That the progress made in implementing internal audit actions be noted.</p>
13.	EXTERNAL AUDIT UPDATE REPORT
	<p>Alastair Newall (Mazars) shared the External Audit Update report.</p> <p>Alastair explained that the planning work has commenced and is going well.</p> <p>A discussion was held around the possible impact of changes to the CIPFA code.</p> <p>Resolved – (1) That the report be noted.</p>
14.	DRAFT PRE-AUDIT STATEMENT OF ACCOUNTS
	<p>The Executive Director (Julie Hawley) shared the report of the Head of Finance which provided Members with the details of the draft Pre-Audit Statement of Accounts 2021.</p> <p>Councillors welcomed the improvement made on trade debtors.</p> <p>Resolved – (1) It is noted by Members that the Draft Pre - Audit Statement of Accounts 2021 is ready for audit.</p>
15.	EXCLUSION OF THE PUBLIC AND PRESS
	<p>Resolved – That the public and press be excluded from the meeting during consideration of agenda item 16 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>
16.	FRAUD PREVENTION FOLLOW UP REPORT

	<p>The Managing Director (Simon Hill) shared the Fraud prevention follow up report. This report has been written in response to a request for further data in the last meeting.</p> <p>Simon talked through the measures in place to strengthen our resistance to fraud attempts, particularly cyber fraud.</p> <p>Resolved – That the report be noted.</p>
17.	DATE AND TIME OF NEXT MEETING
	<p>Resolved – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee is to be held on 1st July 2022, 10.30am.</p> <p>Councillors thanked Cllr Mackenzie for his time Chairing the Audit & Scrutiny Sub Committee.</p>

Audit completion report

Yorkshire Purchasing Organisation
Year ended 31 December 2021

June 2022



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Appendix B: Draft audit report

Appendix C: Independence

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

Audit & Scrutiny Sub-Committee
YPO
41 Industrial Park
Wakefield
WF2 0XE

22nd June 2022

Dear Committee Members

Audit Completion Report – Year ended 31 December 2021

We are pleased to present our Audit Completion Report for the year ended 31 December 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks, and other areas of management judgement, was outlined in our Audit Strategy Memorandum. We have reviewed our Audit Strategy Memorandum and identified that there was an additional significant risk relating to the valuation of the Organisation's Inventory and their consideration of impairment of the Inventory balance. We concluded that the other significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of YPO's finance team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07881 283732.

Yours faithfully

Craig Maxwell
Partner
Mazars LLP

01

Section 01:
Executive summary

1. Executive summary

Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit, including our conclusions on the significant audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls;
- Revenue recognition;
- Impairment of Inventory and Financial Assets
- Valuation of Property, Plant & Equipment;
- Valuation of Defined Benefit Pension Liability;
- Going concern; and
- Related Party Transactions.

Section 5 sets out internal control recommendations and section 6 sets out the adjusted and unadjusted audit misstatements along with other post-audit adjustments made to the financial statements by the Organisation.

Status and audit opinion

At the time of preparing this report, there are some matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through a follow up letter.

Subject to the satisfactory completion of the outstanding work, we intend to provide an unqualified non-statutory opinion on the financial statements.









02

Section 02: **Status of the audit**

2. Status of the audit

Our work is approaching completion and there are currently no matters of which we are aware that would require modification of our non-statutory audit opinion. The outstanding work will still be subject to senior manager and partner file review and the matters below are reported as not likely to result in material adjustments pending that review process.

Audit area	Status	Description of the outstanding matters
Creditors		We are awaiting the final support for several goods received not invoiced samples.
Related parties		We are awaiting the member framework spend disclosure in the accounts as well as the supporting evidence for the spend.
Final accounts and letter of representation		We will complete our final review of the financial statements upon receipt of the signed version of the accounts and letter of representation.

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03: **Audit approach**

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in October 2021.

We identified an additional significant risk after receiving the draft accounts at the year end. The additional significant risk in relation to the valuation of the stock provision.

	Description of risk	Fraud	Error	Judgement	Planned response
1	<p>Valuation of inventory</p> <p>The value of inventory has continued to increase despite revenue being not increasing over the last two years. There is a risk obsolete inventory is being held resulting in a larger than usual impairment of inventory being required.</p>	○	●	●	<p>We plan to address this risk by performing the following procedures:</p> <ul style="list-style-type: none"> - Obtain client workings of inventory lines with details of recent sales and purchase invoices on a line by line basis. - Identify a sell-out period based on the sales and purchases over the previous 12-24 months to determine if obsolete inventory requires impairment. - Obtain client workings for inventory impairments to ensure the criteria set are adequate to highlight inventory lines requiring impairment.

3. Audit approach

Materiality

Our provisional materiality at the planning stage of the audit was set at £1.995m, using a benchmark of 2% of turnover income.

Our final assessment of materiality, based on the final financial statements, is £1.995m using the same benchmark of turnover income.

Reliance on internal audit

We utilised the work performed by internal audit to inform our risk assessment. We did not rely on any internal audit work for the purposes of our external audit.

Use of experts

Management makes use of experts in specific areas when preparing the Trust'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
Property valuations	NPS Humber	We reviewed market trend information to consider the reasonableness of movements in valuations.
Pension Liability	AON Hewitt	We used our internal actuarial team to provide assurance over the reasonableness of YPO's actuarial assumptions.

Service organisations

The table below summarises the service organisations used by the Trust and our planned audit approach.

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

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • Accounting estimates impacting amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	<p>Audit conclusion</p> <p>There are no matters to report in relation to our work on the risk of management override of controls.</p>

4. Significant findings

Risk of fraud in revenue recognition	Description of the risk <p>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 YPO we deem the risk to relate specifically to the recognition of income around the year end.</p>
	How we addressed this risk <p>We addressed this risk by performing detailed testing across the turnover income focusing on the recognition of income in the correct period. Our procedures were 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>
	Audit conclusion <p>There are no matters to report in relation to the recognition of revenue.</p>

Valuation of Inventory	Description of the risk <p>The value of inventory has continued to increase despite revenue not increasing over the past 2 years. There is a risk obsolete inventory is being held resulting in a larger than usual impairment of inventory being required.</p>
	How we addressed this risk <p>We addressed this risk by performing detailed testing across inventory lines, encompassing purchase and sales invoice dates to dictate whether an inventory line was obsolete. We also obtained management's assessment of the impairment and the criteria applied to ensure inventory obsolescence is not an issue.</p>
	Audit conclusion <p>Our audit procedures confirmed that the valuation of inventory was materially correct. We have identified a misstatement in Inventories through our testing of prepayments and this resulted in a non-material error. This is reported in section 6. In addition we discussed the Organisation's approach to impairing inventory items with management, and we report our considerations on page 17 of this section.</p>

4. Significant findings

Valuation of property, plant and equipment	<p>Description of the risk</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>We consider there to be a significant risk of material misstatement in relation to the valuation of YPO's land and buildings as a result of the:</p> <ul style="list-style-type: none"> • High degree of estimation uncertainty associated with the valuations; • Level of judgement applied by management and the valuer in estimating current values; and • Extent to which the valuations are reliant on complete and accurate source data on individual assets being provided to the valuer.
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How we addressed this risk

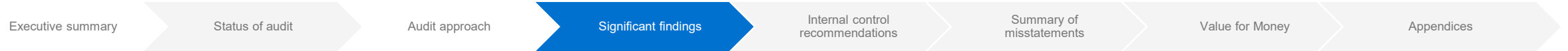
- We evaluated the design and implementation of controls YPO has in place which mitigate the risk. In addition our procedures included:
- Critically assessing the valuer's scope of work, qualifications, objectivity and independence to carry out the Organisation's programme of revaluations;
 - Considering 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 assessing the appropriateness of the underlying data and the key assumptions used in the valuer's calculations, using available third party evidence;
 - Assessing 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 assessing the treatment of the upward and downward revaluations in YPO's financial statements with regards to the requirements of the CIPFA Code of Practice.

Audit conclusion

Our work on the revaluation of YPO's land and buildings has provided the planned assurance and there are no issues to report.

4. Significant findings

<p>Valuation of Defined Benefit Pension Liability</p>	<p>Description of the risk</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>How we addressed this risk (continued)</p> <ul style="list-style-type: none"> Agreeing 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
	<p>How we addressed this risk</p> <p>We evaluated the design and implementation of controls YPO has in place which mitigate the risk. In addition our procedures included:</p> <ul style="list-style-type: none"> Critically assessing the competency, objectivity and independence of the West Yorkshire Pension Fund’s Actuary, Aon Hewitt; Liaising 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 included 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; Reviewing 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; 	<p>Audit conclusion</p> <p>Our work on the valuation of YPO’s Defined Benefit Pension Liability has provided the planned assurance and there are no issues to report.</p>



4. Significant findings

Enhanced risk

Related Party Transactions	Description of the management judgement
	<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>How our audit addressed this area of management judgement</p> <p>We considered the Organisation’s approach to identifying its related parties, and the transactions that it has had with those related parties through the year. We considered whether the disclosures are complete and accurate taking into account the process and the output from the Organisation’s work.</p>
	<p>Audit conclusion</p> <p>Our work on YPO’s related party transactions is not yet complete however there are no matters to report on work completed to date.</p>

Going Concern	Description of the management judgement
	<p>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>How our audit addressed this area of management judgement</p> <p>In forming our conclusion relating to going concern, our procedures included:</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.
	<p>Audit conclusion</p> <p>There are no matters to report related to our going concern work.</p>



4. Significant findings

Qualitative aspects of YPO's accounting practices

The Organisation voluntarily produces non-statutory financial statements which are prepared on a going concern basis as required by the CIPFA Code of Practice on Local Authority Accounting (the Code). We considered the appropriateness of the use of the going concern assumption and have reviewed the Organisation's accounting policies and disclosures. We particularly considered the impact on the Organisation of the Covid-19 pandemic, and the Organisation's own assessment of the impact on its 'going concern' assumption. As highlighted in section 1, our work on going concern is still to be concluded.

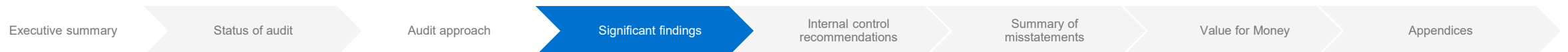
Draft accounts were received from YPO on 24 February 2022. The quality of the initial draft accounts was good, and our initial review comments did not identify any material omissions or corrections that were required. YPO have prepared and shared supporting working papers and evidence through the audit promptly allowing the audit to progress to completion in a smoother fashion than previous years, and in line with our agreed timetable.

Significant matters discussed with management

During the audit we maintained a regular dialogue with management to allow assessments to be performed in areas of judgement such as the Impairment of Trade Debtors and the Inventory balance. With regards to the inventory balance we report earlier in this section our testing results. Although we concluded that the Organisation's approach to impairing inventories led to materially correct Inventory balances, we have discussed with management our views on the prudence of the approach for some areas. Management have confirmed that they intend to continue to refine their approach through 2022, and we will revisit this approach in our audit of the 2022 financial statements.

Significant difficulties during the audit

The audit team did not encounter any difficulties during the audit. Management cooperated with all requests and communication was strong in both directions. Regular progress calls were held to ensure both the audit team and management were delivering to the mutually agreed timetable.



05

Section 05: **Internal control recommendations**

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	1
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1



5. Internal control recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

Deficiencies were identified regarding database administration, as there are 17 accounts with privileged access to administer user access that are part of the marketing or finance departments. Audit logs are maintained but are not reviewed.

Activity logs are maintained and the 17 users identified to have excessive permissions do not have database level access. A user access rights review is being undertaken to remove user permissions where they are not required for the role and responsibilities of the users.

Potential effects

Business users should not be provided with access to carry out database administration tasks.

Unauthorised access to the network may compromise data confidentiality and integrity. This is classed as a high impact finding as business users should not have access to administer user access.

Recommendation

a) In order to limit unauthorised access risk we recommend performing a review of the database access to ensure all access rights are required.

b) We also recommend ensuring database activity logs are enabled and the administrators' activity is closely monitored.

Management response

The IT and Finance departments will review the list of 17 users to ensure all system permissions are updated and administrator access is restricted in line with job responsibilities. Quarterly reviews of all user permissions and activity logs will also be introduced.

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

It has been noted during fixed asset testing an asset had been disposed of in 2022 without the knowledge of management and the finance team. The asset had a cost brought forward of £8,297 and a net book value of Nil.

Potential effects

The financial statements may be incorrect due to assets being presented within the financial statements that are no longer under YPOs control.

Recommendation

The Organisation should establish a robust control framework so that management and the finance team are promptly informed of all asset disposals

Management response

The Asset Management policy and procedures will be reviewed and updated to ensure all processes around asset acquisition, maintenance and disposal are up to date. This policy will be circulated to the relevant departments to ensure everyone involved is aware of these processes, particularly around informing Finance when assets are disposed of.

Description of deficiency

We identified through our testing that the Organisation has an arrangement to purchase items of inventory from a supplier and the supplier retains possession of the items until a customer order is received, at which point it is shipped directly from the supplier to the customer. The Organisation had not included the value of these items in its inventory balance, and had not included this storage facility in its warehouse stocktake arrangements.

Potential effects

The financial statements may be incorrect due to inventory assets not being counted and not accounted for at the correct value.

The Organisation may be exposed to financial and operational risks from having paid for inventory items of which it does not have possession.

Recommendation

The Organisation should:

- a) Include the supplier warehouse within its stock count arrangements in 2022 to ensure these items of inventory are counted and valued correctly.
- b) Ensure it is aware of, and manage, its operational and financial risks from this arrangement.

Management response

The pre-paid stock stored at our supplier's warehouse has been confirmed to be completed goods ready to ship as soon as our customer orders. Going forward we will include the value of this stock within our inventory balance on the balance sheet. We also include this stock as part of the annual stock counts so we can validate the monthly updates we receive from the supplier, containing running stock levels.

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

We identified a lack of formal recording processes present in identifying transactions between YPO and their related parties.

Potential effects

This can lead to incorrect disclosures of related party transactions within the financial statements.

Recommendation

The Organisation should establish a formal process as part of the production of the accounts, to identify all transactions with their related parties.

Management response

As part of our year end process, we currently review all declarations of interest from our member authority websites to record all potential related parties. We will extend this process to identify all transactions with these related parties and include in the annual accounts where required.

5. Internal control recommendations - Follow up of prior year recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

Our testing of the trade creditors balance identified that the £4.1m of trade creditors contains £9.0m of credit entries offset by £4.9m of debit entries. Consequently our testing was more extensive than should ideally be necessary, testing both the credit and the debit entries.

This issue has arisen as a result of solutions put in place to manage issues with the NAV ledger system, and in particular the Organisation not being able to correctly post invoices to the ledger, creating unnecessary debit balances within the creditors ledger, and resulting in payments not being matched against invoices.

As well as causing additional testing in the audit this issue causes inefficiencies for the Organisation that leads to additional time and complexity required to process routine transactions.

Potential effects

There is significant additional audit work required as a consequence, and the Organisation is not able to operate its financial systems as efficiently as it should be. The current method of working could also result in inaccurate payments to suppliers if the manual intervention does not identify over-payments made.

Recommendation

Implement system improvements to enable the operation of an efficient accounts payable system avoiding the creation of significant debit and credit entries in the trade creditors balance. Additional assistance from NAV should be sought to ensure this issue does not continue and invoices can be correctly posted to the payables ledger and correctly matched against a payment, once made.

Management response

Monitoring is in place to ensure that all invoices are processed in a timely manner and passed into NAV from the matching system. Tracking of the debit balances is also underway with the aim to remove all debit balances by the end of 2021. A monthly process will be introduced to report all debit balances moving forward so we can see the progress made.

Follow up 2021

This was identified again in the 2021 financial audit as £14.6m debit balances are maintained on the trade creditors ledger.

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5. Internal control recommendations - Follow up of prior year recommendations

Significant deficiencies in internal control – Level 1

Description of deficiency

Our testing of the year-end bank reconciliation identified that there were reconciling items that had been paid by the bank before the year end but not adjusted through the cash book. Consequently a creditor existed for the items even though they had been paid in the year and the bank balance in the ledger was correspondingly overstated. This has occurred as a result of delays in processing items in the ledger and the creditors and bank balances being wrongly increased as a result.

The year-end bank reconciliation also has an unidentified £9k reconciling item.

Potential effects

The bank reconciliation is a critical control and should be promptly and completely completed with no unidentified reconciling items. The delays to processing payments in the ledger has led to an overstatement of the bank and creditors balances in the Organisation’s accounts. The unidentified reconciling item raises concerns that the bank and cash book in the ledger are not reconciled and that undermines the integrity of the ledger.

Recommendation

- a) All bank payments should be promptly and accurately processed in the cash book and should be appropriately treated in the year end bank reconciliation.
- b) The unreconciled balance in the bank reconciliation should be promptly identified and any made adjustments to the ledger.

Management response

- a) All bank payments will be posted as part of the month end routine and checks in place to ensure this is done, suspense accounts will be utilised should there be any queries on any payments.
- b) The unreconciled balance is being worked on and will be adjusted on the ledger when finalised.

Follow up 2021

This issue was not identified within the 2021 audit and we consider the deficiency to have been addressed.

5. Internal control recommendations - Follow up of prior year recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Our testing of the general IT controls identified that there are 83 user accounts that have administrator/privileged access, 24 of these are in the IT department and 59 are within other departments. This is an excessively high number of privileged access accounts and was subject to an external audit recommendation in 2019.

Potential effects

Not restricting the privileged access rights to a small number of appropriate users increases the risk of inappropriate or incorrect changes to systems or other user's access rights.

Recommendation

Review the number of users who have administrator privileges and ensure that only those who require those high privilege access rights are retained. Ensure that there is management review of the justification to maintain any generic accounts in the future.

Follow up 2021

This was identified again in the 2021 financial audit and is noted in the current year deficiencies.

Description of deficiency

Our testing of the general IT controls identified that the Organisation had maintained a user account for one staff member who had left during 2020 in order to use that account for reporting/access of the MI team. It is inappropriate to maintain a user account for a member of staff who no longer works for the Organisation.

Potential effects

User access rights should be specific to an individual's position and responsibilities. Not immediately removing accounts for users that have left exposes the Organisation to significant risk of inappropriate access and weakens the IT control framework.

Recommendation

Remove the user account for the leaver and ensure that any access that is required by individuals is specific to their role and responsibilities.

Management response

The user account will be removed immediately, going forward any access requirements will be passed onto other existing staff once access has been approved by their SLT member.

Follow up 2021

This issue was not identified within the 2021 audit and we consider the deficiency to have been addressed.

5. Internal control recommendations - Follow up of prior year recommendations

Other recommendations in internal control – Level 3

Description of deficiency

Our testing of general IT controls identified that there are 401 user accounts that are not specific to an individual but are generic accounts. This is an excessively high number and exposes the Organisation to risk and weakens the IT control framework.

Potential effects

IT user access should be specific to an individual’s roles and responsibilities and the number of generic accounts should be minimised to ensure the Organisation has a strong control over the access rights and can efficiently maintain the list of users.

Recommendation

Review the number of generic accounts and remove all those that are unnecessary or out of date. Ensure that there is management review of the justification to maintain any generic accounts in the future.

Follow up 2021

This issue was not identified within the 2021 audit and we consider the deficiency to have been addressed.

Description of deficiency

Our testing of payroll transactions identified that the Organisation did not hold a signed contract of employment for one new employee.

Potential effects

Signed contracts protect the Organisation and the employee from future disputes or disagreements.

Recommendation

Ensure prior to employment that signed contracts are held on file.

Management response

TBC

Follow up 2021

This issue was not identified within the 2021 audit and we consider the deficiency to have been addressed.

Section 06: **Summary of misstatements**

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £60k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust. Overleaf are the misstatements that have been adjusted by management during the course of the audit including the disclosure amendments.

Unadjusted misstatements

	CIES		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short Term Creditors – Payroll Accrual		127	
	Cr: Operating Expenses – Employees	127		
	The accrual for the pay award costs was over-estimated leading to creditors and operating expenses being overstated by £127k.			
2	Dr: Rebate Income	622		
	Cr: Usable Reserves – General Fund			622
	The 2020 rebate income was under-accrued based on actual invoices raised in 2021. The actual error from our testing was £176k, this was extrapolated in line with our audit approach and the extrapolated error was an additional £446k. Our estimate of the understatement is therefore £622k.			
3	Dr: Inventories		158	
	Cr: Short Term Debtors – Prepayments			158
	Testing identified that items classified as prepayments were found to relate to inventories owned by the Organisation but held at a supplier warehouse. Prepayments are overstated by £158k with a corresponding understatement of the Inventories balance.			
4	Dr: Other Income	305		
	Cr: Short Term Debtors			305
	Testing identified that catalogue contributions for 2021 were over-estimated based on the amounts that were invoiced to suppliers in 2022. Other income and Short Term debtors were overstated by £305k.			

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6. Summary of misstatements

Unadjusted misstatements - Continued

		CIES		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Short Term Creditors			112	
	Cr: Operating expenses		112		
<p>Our testing identified errors arising from differences between the supplier statements obtained and the trade creditor balance in the accounts. Our testing identified actual errors of £33k, and in line with our audit approach we extrapolated this error. This identified an additional £79k extrapolation error.</p>					
6	Dr: Operating expenses	205			
	Cr: Short Term Debtors – Prepayments				205
<p>Our testing identified a small error in the calculation of prepayments. The actual error was £1k. In line with our audit approach we extrapolated this error. This identified an additional £204k extrapolation error.</p>					
Total unadjusted misstatements		1,132	228	386	1,290

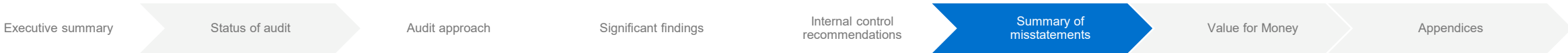
6. Summary of misstatements

Adjusted misstatements

There are no adjusted misstatements to report.

Disclosure amendments

During the course of our audit, we have identified a small number of disclosure adjustments required to the draft financial statements. The Organisation amended the financial statements for these. In particular the Organisation has made a material adjustment to the disclosure of Short Term Creditors in Note 10, adjusting the split between Trade Creditors and Accruals. The Organisation also adjusted the 2020 analysis in Note 10 to reflect the prior year balances. There was no impact on the Organisation's balance sheet from this adjustment which was only in the analysis in Note 10.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

Appendix A: Draft management representation letter

Note: To be provided by YPO to us on client headed note paper

Yorkshire Purchasing Organisation (YPO) – non-statutory audit for the year ended 31 December 2021

This representation letter is provided in connection with your audit of the financial statements of Yorkshire Purchasing Organisation (YPO) for the year ended 31 December 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within YPO you determined it was necessary to contact in order to obtain audit evidence.

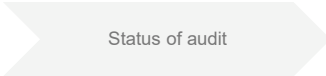
I confirm as YPO’s Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and member meetings, have been made available to you.

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Appendix A: Draft management representation letter (continued)

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the company's financial position, financial performance and cash flows

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.

In particular I confirm the:

- the appropriateness of the measurement process, including related assumptions and models, used by management in determining accounting estimates under the Code, and the consistency of application of the process;
- that the assumptions appropriately reflect YPO's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- that the disclosures related to accounting estimates are complete and appropriate under the Code;
- that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against YPO have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

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Appendix A: Draft management representation letter (continued)

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

I confirm that YPO has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting YPO involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of YPO's related parties and all related party relationships and transactions of which we are aware.

Impairment review

To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the Property, Plant & Equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Appendix A: Draft management representation letter (continued)

Future commitments

YPO has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Impacts of Russian Forces entering Ukraine

I confirm that YPO have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosures in the financial statements fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that YPO will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Covid-19

I confirm that I have carried out an assessment of the potential impact of the Covid-19 virus pandemic on YPO, including the impact of mitigation measures and uncertainties, and that the disclosure in the Narrative Statement by the Managing Director and the subsequent events note 19 to the financial statements fairly reflects that assessment.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully

Neil Warren

YPO Chief Finance Officer

Appendix A: Draft management representation letter (continued)

Appendix

Schedule of unadjusted misstatements

		CIES		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Short Term Creditors – Payroll Accrual			127	
	Cr: Operating Expenses – Employees		127		
The accrual for the pay award costs was over-estimated leading to creditors and operating expenses being overstated by £127k.					
2	Dr: Rebate Income	622			
	Cr: Usable Reserves – General Fund				622
The 2020 rebate income was under-accrued based on actual invoices raised in 2021. The actual error from our testing was £176k, this was extrapolated in line with our audit approach and the extrapolated error was an additional £446k. Our estimate of the understatement is therefore £622k.					
3	Dr: Inventories			158	
	Cr: Short Term Debtors – Prepayments				158
Testing identified that items classified as prepayments were found to relate to inventories owned by the Organisation but held at a supplier warehouse. Prepayments are overstated by £158k with a corresponding understatement of the Inventories balance.					
4	Dr: Other Income	305			
	Cr: Short Term Debtors				305
Testing identified that catalogue contributions for 2021 were over-estimated based on the amounts that were invoiced to suppliers in 2022. Other income and Short Term debtors were overstated by £305k.					

Appendix A: Draft management representation letter (continued)

Appendix

Schedule of unadjusted misstatements

		CIES		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
5	Dr: Short Term Creditors			112	
	Cr: Operating expenses		112		
Our testing identified that there were differences between the supplier statements obtained and the trade creditor balance in the accounts. Our testing identified an actual error of £22k, and in line with our audit approach we extrapolated this error. This identified an additional £79k extrapolation error.					
6	Dr: Operating expenses	205			
	Cr: Short Term Debtors – Prepayments				205
Our testing identified a small error in the calculation of prepayments. The actual error was £1k. In line with our audit approach we extrapolated this error. This identified an additional £204k extrapolation error.					
Total unadjusted misstatements		1,132	228	386	1,290

Appendix B: Draft audit report

Independent auditor’s report to the members of Yorkshire Purchasing Organisation

Report on the financial statements

Opinion

We have audited the non-statutory financial statements of Yorkshire Purchasing Organisation (‘the Organisation’) for the year ended 31 December 2020, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. The non-statutory accounts have been prepared for the reasons set out in Note 1 to the financial statements.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Organisation as at 31st December 2021 and of the Organisation’s income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law and the terms of our engagement letter dated 24 January 2022. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Organisation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Organisation’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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Appendix B: Draft audit report (continued)

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, unless the Organisation is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Organisation to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Organisation we identified that the principal risks of non-compliance with laws and regulations related to the Local Authorities (Goods & Services) Act 1970 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

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Appendix B: Draft audit report (continued)

Auditor’s responsibilities for the audit of the financial statements (continued)

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Organisation which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing; reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Use of the audit report

This report is made solely to the members of Yorkshire Purchasing Organisation, as a body, in accordance with the terms of our engagement letter in connection with the Organisation’s decision to prepare non-statutory accounts. Our audit work has been undertaken so that we might state to the members of the Organisation those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Organisation, as a body, for our audit work, for this report, or for the opinions we have formed.

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

Date

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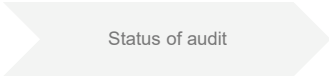


Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Mazars

5th Floor

3 Wellington Place

Leeds

LS1 4AP

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.



REPORT TO

AUDIT & SCRUTINY COMMITTEE

1ST JULY 2022

SUBJECT: AUDITED STATEMENT OF ACCOUNTS 2021

REPORT OF: HEAD OF FINANCE

1 PURPOSE OF REPORT

1.1 To present the audited Statement of Accounts for 2021.

2 SUMMARY

2.1 The Statement of Accounts 2021 has been externally audited, and the auditors expect to issue an unqualified opinion.

3 BACKGROUND

3.1 In accordance with the Accounts and Audit Regulations, 2015 and considering relevant accounting codes of practice and applicable accounting standards, a Statement of Accounts has been prepared.

3.2 Although the compliance noted in 3.1 is no longer mandatory for YPO, as a Joint Committee, it was agreed at Management Committee in March 2016 that a non-statutory audit would still be needed and the accounts would be prepared in line with the relevant standards and regulations each year going forward.

3.2 The pre-audit Statement of Accounts 2021 was approved for external audit at the Audit and Scrutiny Sub Committee on 4th March 2022.

3.3 The external audit commenced from the 14th of March 2022; the majority of the audit was carried out on site with all follow up queries resolved by the end of June 2022.

- 3.4 A full list of all audit findings and recommendation is contained within the External Audit completion report.
- 3.5 No changes have been made to financial statements following the audit work.

4 RECOMMENDATION

- 4.1 That the audited Statement of Accounts be approved for signing for 2021.

5 WHAT DOES THIS MEAN FOR YPO STAKEHOLDERS?

- 5.1 An unqualified audit opinion gives stakeholders some assurance that the organisation is acting within the protocols of good financial management.

6. OUTCOME AND SUSTAINABILITY

- 6.1 An unqualified audit opinion is a good outcome and acknowledges that the organisation has effective financial controls and corporate governance.

7. FINANCIAL IMPLICATIONS

- 7.1 The audit fee for 2021 was £30K.

8. LEGAL IMPLICATIONS

- 8.1 There are no legal implications arising from this report.

9. EQUALITY IMPLICATIONS / EQUALITY OF OPPORTUNITY IMPLICATIONS

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

10. RISK ASSESSMENT

- 10.1 There is no risk associated with this report.

SERVICE DIRECTOR: JULIE HAWLEY, EXECUTIVE DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

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

CONTACT OFFICERS: MATTHEW HIRST, HEAD OF FINANCE

YPO
41 Industrial Park
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Telephone No: 01924 821740

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

APPENDIX:

Appendix 1 – Audited Statement of Accounts 2021

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YORKSHIRE PURCHASING ORGANISATION



**AUDITED
STATEMENT
OF ACCOUNTS
2021**

Narrative Statement by the Managing Director

1. INTRODUCTION

This document is the Statement of Accounts for the Yorkshire Purchasing Organisation. The Statement of Accounts shows the Organisation's financial performance for the year ended 31st December 2021. The Narrative Statement provides a guide to the most significant matters in the financial statements.

The Yorkshire Purchasing Organisation (YPO) was established in 1974 to fulfil the supplies requirements of a number of local authorities. The enabling Act of Parliament for the Organisation is the Local Authorities (Goods and Services) Act 1970 and its objectives are for the supply of goods and procurement of services to the public sector.

There are currently 13 founder member authorities and seventy one associate member authorities of YPO as of 31st December 2021, although the Organisation trades extensively outside the membership area. Management of the Organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

Founder Member Authorities

Barnsley MBC	North Yorkshire CC
Bolton MBC	Rotherham MBC
City of Bradford MC	St Helens MBC
MB of Calderdale	City of Wakefield MDC
Doncaster MBC	Wigan MBC
Kirklees MC	City of York Council
Knowsley MBC	

Associate Member Authorities

first year of membership

Bury Metropolitan Borough Council	2011
Cumbria City Council	2011
Durham City Council	2011
Leeds City Council	2011
North East Lincolnshire Council	2011
North Lincolnshire Council	2011
Sheffield City Council	2011
Cheshire East Council	2012
East Riding of Yorkshire Council	2012
Hull City Council	2012
Rochdale Metropolitan Borough Council	2012
South Yorkshire Fire and Civil Defence Authority	2012
South Yorkshire Police Authority	2012
Stockport Metropolitan Borough Council	2012
Trafford Council	2012
Warrington Borough Council	2012
West Yorkshire Fire and Civil Defence Authority	2012
West Yorkshire Police Authority	2012
Blackpool Borough Council	2013
Lancashire Fire & Rescue Service	2013
London Borough of Hillingdon	2013
Malvern Hills District Council	2013
Manchester City Council	2013
Northumberland County Council	2013
Staffordshire City Council	2013
West Midlands Fire & Rescue Authority	2013
Wiltshire Fire and Rescue Service	2013
Wyre Forest District Council	2013
Birmingham City Council	2014
Kettering Borough Council	2014
London Borough of Harrow	2014
Tameside Council	2015
Lancaster City Council	2015
Walsall Council	2015
Cheshire Fire and Rescue Service	2016
Coventry City Council	2016
Craven District Council	2016

Narrative Statement by the Managing Director

Fylde Council	2016
Greater Manchester Fire and Rescue	2016
Greater Manchester Police	2016
Halton Borough Council	2016
Lancashire Police	2016
London Borough of Brent	2016
London Borough of Hackney	2016
London Borough of Waltham Forest	2016
Liverpool City Council	2016
Merseyside Fire and Rescue Service	2016
Merseytravel	2016
Oldham Council	2016
Salford City Council	2016
Sefton Borough Council	2016
Solihull Metropolitan Borough Council	2016
Wyre Council	2016
Allerdale Borough Council	2017
Devon County Council	2017
London Borough of Camden	2017
London Borough of Haringey	2017
London Borough of Westminster	2017
Pendle Borough Council	2017
Buckinghamshire County Council	2018
Harrogate Borough Council	2018
Humberside Police Service	2018
North Yorkshire Police Service	2018
Police and Crime Commissioner for Merseyside	2018
Telford and Wrekin Council	2018
Cheshire West and Chester Council	2019
Lancashire County Council	2019
London Borough of Islington	2019
Oxfordshire County Council	2019
Police and Crime Commissioner for Cleveland	2019
Thames Valley Police	2019

Certain services, including legal, treasury and internal audit, are provided by the City of Wakefield MDC in accordance with arrangements agreed by the Management Committee.

Associate membership allows for attendance at the public section of all committee meetings but does not carry voting rights.

2. ACCOUNTABILITY AND FINANCIAL REPORTING

There is no longer a statutory requirement for YPO, as a Joint Committee, to have an external audit. However, in March 2016 the Management Committee and Section 151 Officer of the lead authority agreed that YPO should continue to prepare, each year, a statement of accounts in accordance with the CIPFA Code of Practice that is subject to an external audit.

As a result this will be a non-statutory audit meaning that compliance with the Accounts and Audit Regulations 2015 is not mandatory.

We have continued to categorise our Reserves as "Usable" and "Unusable" in line with the CIPFA Code of Practice. This is purely for presentational needs and we acknowledge that any powers attributed to this classification no longer applies to the Organisation.

3. THE STATEMENTS

The financial activity of the Organisation in relation to the service it provides is shown through a number of key financial statements and notes:

The Movement In Reserves Statement shows the movement in year on the different reserves held by the Organisation.

The Comprehensive Income and Expenditure Statement summarises the income and expenditure of the Organisation during the year.

Narrative Statement by the Managing Director

The Balance Sheet shows the value as at the 31st December 2021 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

The Cash Flow Statement shows the changes in cash and cash equivalents of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash and cash equivalents by classifying cash flows between operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Organisation are performing. Investing activities represent the extent to which cash inflows have been made for resources which are intended to contribute to the Organisations future operations.

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the Organisation and the Chief Finance Officer at Wakefield MDC for the Statement of Accounts.

The Annual Governance Statement sets out the framework designed to ensure that the Organisation operates a sound system of internal control which facilitates the effective exercise of its operations, and which includes arrangements for the management of risk. Whilst it is not a requirement to be part of this Statement of Accounts it is attached as appendix A to this statement to aid the user to better understand the governance arrangements in force within the Organisation.

4. FINANCIAL SUMMARY

The 2021 budget approved in November 2020 was for a turnover of £110m and a surplus of £7.0m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

The full year performance of the Organisation in 2021 continued to be affected the impacts of the final lockdown measures which remained in place until March 2021. Schools remaining largely closed until 8th March 2021 and as a result we saw relatively low levels of sales activity from our largest customer base until the start of March. Whilst sales recovered initially, across the remainder of the year, trading failed to fully return to the previous pre covid levels and work continues into 2022 to recover lost revenue as part of the medium term financial plan.

Invoiced sales for the year are £99.8m and the reported profit in the management accounts was £3.7m, under the budgeted profit of £7.0m by £3.3m. This profit includes impairment losses and interest received in the year, but excludes the pensions service gains or costs and any income for pensions interest reported in the Comprehensive Income and Expenditure Statement which presents a deficit on provision of service of (£5.9m).

Income from stock and framework contracts at £5.9m were under the budget of £6.4m, performance being adversely affected by national lockdown earlier in the year which presented challenges in delivering the targeted growth for Rebate income. Activity related rebates for ICT and Energy, alongside Food and Stock volume related rebates were most heavily impacted.

Operating costs for 2021 were £34.8m. This is made up of the operating expenditure and interest payable as per the CIES but excludes any pension service costs. This is £1.2m over budget and £0.8m above 2020. The key areas of overspends in the year were across supplies and services and stocktake adjustments in particular, alongside an increase in premises costs which were attributable to additional warehouse facilities acquired on a 3 year lease at Unit K, Kenmore Road, Wakefield. Overspends on stock adjustments continue to relate to the remedial work which is ongoing following the NAV implementation at the end of 2019.

Property, Plant and Equipment is reported at £11.972m, indicating an increase in net asset value £1.674m since 2020. This increase, however, is primarily attributable to the annual revaluation of the premises at Unit 41, with the value of commercial warehousing premises in general, increasing as an asset class across the UK and especially so in Wakefield. A key driver of this is the increased demand and the subsequently increased rents for similar premises and locations in the post covid landscape. No new capital expenditure was incurred in the year.

Trade debtors are at £15.9m, £4.4m lower than 2020, following an increased focus in the year to collect aged debt that materialised following the impact of our system change and Covid-19.

The net liabilities of the Organisation as at 31st December 2021 are £8.874m, and showed a substantial improvement on the £20.453m liability in last years accounts. Net current assets remain relatively unchanged at £23.0m, however, a favourable movement in the pension liability of £10.133m due to improvements in the value of the pension assets, has helped reduce the organisation's overall net liability position. It is important to note these movements are estimates of the long term liabilities and the short term financial health of the Organisation is reflected in its strong working capital position of £23m.

On the Balance Sheet is also an amount of £0.5m shown as Debtors: Amounts due after more than one year, this represents a loan issued to one of our related parties, YPO Procurement Holdings. A loan agreement has been drawn up and the full amount plus the accrued daily interest is repayable in full by the end of 2030.

Cash flow movement in the year has decreased the cash at bank balances by £0.244m. This reflects the operating performance of the Organisation in the year and includes the cash impact relating to the movement we have seen across stock, debtors and creditors.

Narrative Statement by the Managing Director

5. RETIREMENT BENEFITS

The value of the Organisation's retirement benefits liability as at 31 December 2021 was £44.4 million (31 December 2020 £54.5 million). The reduction since last year is due to a favourable increase in the current value of the pension fund assets.

The employer's contribution rate was 14.1% in 2021. (see note 7 to Core Financial Statements - Retirement Benefits)

6. MEDIUM TERM FINANCIAL STRATEGY

The 2022 Budget was approved by the Management Committee in November 2021. 2022 is the first year of the Organisation's new 5 year strategy themed "invest for success" post pandemic.

The 5 year strategy focuses on customer excellence, improved service proposition through digitalisation and a real focus on social value within the business and throughout the supply chain.

A medium term financial strategy has been drawn up in line with the investment approved by our 13 Local Authorities in November 2021, with the aim of returning maximum, sustainable dividends to our members in future years to come.

Simon Hill
Managing Director

Statement of Responsibilities

THE ORGANISATION'S RESPONSIBILITIES

The Organisation is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Organisation that officer is the Chief Finance Officer of Wakefield MDC. Day to day financial management is the responsibility of the Managing Director of YPO.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

THE RESPONSIBILITIES OF THE CHIEF FINANCE OFFICER

The Chief Finance Officer is responsible for the preparation of the Organisation's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the code).

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date.
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

CHIEF FINANCE OFFICER

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Yorkshire Purchasing Organisation at 31st December 2021 and its Income and Expenditure for the year then ended.

Signed

Date.....

NEIL WARREN
Chief Finance Officer

APPROVAL OF THE ACCOUNTS

As the Chair of the body considering the Yorkshire Purchasing Organisation's Statement of Accounts for 2021, I certify that the Accounts have been approved by the Management Committee and are authorised for issue.

Signed.....

Date.....

Cllr LES SHAW
Chairperson YPO Management Committee

Auditor's Opinion

Independent auditor's report to the members of Yorkshire Purchasing Organisation

Report on the financial statements

Opinion

We have audited the non-statutory financial statements of Yorkshire Purchasing Organisation ('the Organisation') for the year ended 31 December 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. The non-statutory accounts have been prepared for the reasons set out in Note 1 to the financial statements.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Organisation as at 31st December 2021 and of the Organisation's income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law and the terms of our engagement letter dated 24 January 2022. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Organisation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Organisation's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Auditor's Opinion

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, unless the Organisation is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Organisation to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Organisation we identified that the principal risks of non-compliance with laws and regulations related to the Local Authorities (Goods & Services) Act 1970 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Organisation which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing; reviewing management judgements and assumptions in significant accounting estimates, and reviewing any significant one-off or unusual transactions.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the members of Yorkshire Purchasing Organisation, as a body, in accordance with the terms of our engagement letter in connection with the Organisation's decision to prepare non-statutory accounts. Our audit work has been undertaken so that we might state to the members of the Organisation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Organisation, as a body, for our audit work, for this report, or for the opinions we have formed.

Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement in year on the different reserves held by the Organisation. The surplus / (deficit) on Operations line shows the true economic cost of operational activity in the year more details of which, are shown in the Comprehensive Income and Expenditure Account.

The Net increase/(decrease) before transfer to Earmarked Reserves line shows the General Fund Balance prior to any discretionary transfers to or from earmarked reserves applied by the Organisation.

2020	£000's										Note
	Usable Reserves			Unusable Reserves				Total Usable reserves	Total Unusable reserves	Total Reserves	
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee Capital Adjustment Account	Earmarked Pension Reserve	Earmarked Accumulated absences account	Revaluation Reserve				
Balance as at 31 December 2019	29,447	85	654	10,134	(42,099)	(185)	279	30,186	(31,871)	(1,685)	
Movement in Reserves during 2020											
Surplus or (Deficit) on Operations	(11,882)	0	0	0	0	0	0	(11,882)	0	(11,882)	
Other Comprehensive Income	0	0	0	0	(7,695)	0	810	0	(6,885)	(6,885)	
Total Comprehensive Expenditure and Income	(11,882)	0	0	0	(7,695)	0	810	(11,882)	(6,885)	(18,768)	
Adjustments between accounting basis and funding basis under regulation	0	0	0	0	0	0	0	0	0	0	
Net Increase / (Decrease) before transfer to Earmarked Reserves	(11,882)	0	0	0	(7,695)	0	810	(11,882)	(6,885)	(18,768)	
Transfer (to) / from Earmarked Reserves	5,370	0	0	(451)	(4,731)	(188)	(1)	5,370	(5,371)	(0)	
Increase / (Decrease) in Movement in Year	(6,512)	0	0	(451)	(12,426)	(188)	808	(6,512)	(12,256)	(18,768)	
Balance as at 31 December 2020	22,935	85	654	9,683	(54,525)	(372)	1,087	23,674	(44,127)	(20,453)	13
2021	£000's										
	Usable Reserves			Unusable Reserves				Total Usable reserves	Total Unusable reserves	Total Reserves	Note
	General Fund Balance	Capital Receipt Reserve	Internal Investment Reserve	Joint Committee Capital Adjustment Account	Earmarked Pension Reserve	Earmarked Accumulated absences account	Revaluation Reserve				
Balance as at 31 December 2020	22,935	85	654	9,683	(54,525)	(372)	1,087	23,674	(44,127)	(20,453)	
Movement in Reserves during 2021											
Surplus or (Deficit) on Operations	(5,914)	0	0	0	0	0	0	(5,914)	0	(5,914)	
Other Comprehensive Income	0	0	0	0	15,580	0	1,913	0	17,493	17,493	
Total Comprehensive Expenditure and Income	(5,914)	0	0	0	15,580	0	1,913	(5,914)	17,493	11,579	
Adjustments between accounting basis and funding basis under regulation	0	0	0	0	0	0	0	0	0	0	
Net Increase / (Decrease) before transfer to Earmarked Reserves	(5,914)	0	0	0	15,580	0	1,913	(5,914)	17,493	11,579	
Transfer (to) / from Earmarked Reserves	5,683	0	0	(239)	(5,447)	24	(21)	5,683	(5,683)	0	
Increase / (Decrease) in Movement in Year	(232)	0	0	(239)	10,133	24	1,892	(232)	11,811	11,579	
Balance as at 31 December 2021	22,703	85	654	9,444	(44,392)	(348)	2,979	23,442	(32,317)	(8,874)	13

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the financial performance of the Organisation for the year ending 31 December 2021. It shows all income and expenditure from its operating activities and any financing and investment income and expenditure impacting on the Surplus / (Deficit) on provision of service. It also shows any other comprehensive income and expenditure not recognised in the surplus / (deficit) on provision of service.

2020 £'000		2021 £'000	Note
99,620	<i>Invoiced Turnover</i>	99,789	1
(70,250)	<i>Cost of Sales</i>	(69,276)	
29,370	<i>Gross Margin</i>	30,512	
5,046	Rebates	5,939	1
1,799	Other Income	2,047	
36,215	<i>Gross Surplus</i>	38,498	
	<i>Operating Expenses</i>		
(19,290)	Employees	(20,095)	
(1,047)	Premises	(1,299)	
(16,892)	Supplies and Services	(8,094)	
(4,531)	Transport	(5,210)	
(127)	S.L.A. Costs	(103)	
(225)	Financial and Miscellaneous	297	
(452)	Depreciation and revaluation increase/(decrease)	(260)	7
(3,910)	Pension service gain(cost) net of charges made to the general fund	(4,697)	6
(46,473)	<i>Net Operating Expenditure</i>	(39,462)	
(10,258)	<i>Surplus/(deficit) on trading operations</i>	(964)	
	<i>Financing and investment income and expenditure</i>		
(486)	Impairment Losses - Increase in allowance in the year	0	
(821)	Pensions Interest Cost and Expected Return on Pension Assets	(750)	6
0	Interest Payable	(19)	
13	Interest Receivable	0	
(331)	Dividend paid	(4,181)	
(1,625)		(4,951)	
(11,882)	<i>Surplus/(Deficit) on provision of service</i>	(5,914)	
	<i>Other Comprehensive income and expenditure</i>		
(7,695)	Actuarial gains / (losses) on pension assets / liabilities	15,580	
810	Gains / (losses) on revaluations of PP&E	1,913	
(6,885)		17,493	
(18,768)	<i>Total comprehensive Income and Expenditure</i>	11,579	

BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2021 of the assets and liabilities recognised by the Organisation. The net assets of the Organisation (assets less liabilities) are matched by the reserves held by the Organisation.

Re-stated 31st Dec 2020 £'000		31st Dec 2021 £'000	<u>Note</u>
	Long term Assets		
10,298	Property, Plant and Equipment	11,972	7
21	Intangible Assets	0	7
500	Debtors: Amounts due after more than one year	500	
<u>10,819</u>	Total Long Term Assets	<u>12,472</u>	
	Current Assets		
17,414	Inventories	17,573	8
20,289	Short term debtors	15,861	9
1,198	Cash and cash equivalents	953	
<u>38,900</u>	Total Current Assets	<u>34,387</u>	
	Current Liabilities		
(12,106)	Short term creditors	(7,841)	10
(3,500)	Short term borrowing	(3,500)	11
<u>(15,606)</u>	Total Current Liabilities	<u>(11,341)</u>	
<u>23,295</u>	Net Current Assets	<u>23,046</u>	
	Long term Liabilities		
(41)	Liability relating to Finance Leases	0	
(54,525)	Liability relating to Defined Benefit Pension Scheme	(44,392)	6
<u>(20,453)</u>	Net Assets / (Net Liabilities)	<u>(8,874)</u>	
	Financed by:		
	Usable Reserves		
22,935	General Fund	22,703	
85	Usable Capital Receipts Reserve	85	13
654	Internal Investment reserve	654	13
	Unusable Reserves		
9,683	Joint Committee Capital Adjustment Account	9,444	13
(54,525)	Pension Reserve	(44,392)	13
(372)	Earmarked Accumulated Absences Account	(348)	13
1,087	Revaluation Reserve	2,979	13
<u>(20,453)</u>	Total Reserves	<u>(8,874)</u>	

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash, and cash equivalents, of the Organisation during the reporting period. The statement shows how the Organisation generates and uses cash, and cash equivalents, by classifying cash flows between operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Organisation are performing. Investing activities represent the extent to which cash inflows have been made for resources which are intended to contribute to the Organisation's future operations.

2020 Re-stated		2021
£'000		£'000
(11,882)	Net surplus/(deficit) on the provision of service	(5,914)
	Adjustment to the net surplus/(deficit) for non cash movements	
452	Depreciation and revaluation increase/(decrease)	260
(3,724)	(Increase)/Decrease in Inventories	(159)
(5,322)	(Increase)/Decrease in Debtors	4,428
4,731	Increase/(Decrease) in Pension Liability	5,447
2,474	Increase/(Decrease) in Creditors	(4,305)
(331)	Redemption of loyalty vouchers	(1,473)
(1,720)		4,197
	Adjustments for items included in the net surplus/(deficit) that are financing/investing activities	
331	Dividend payment	4,181
331		4,181
(13,272)	Net cash flows from operating activities	2,463
	Financing Activities	
0	Dividends paid to Members	(2,708)
6,500	Receipt of short term borrowing	3,500
(3,000)	Repayment of short term borrowing	(3,500)
3,500	Net cash flows from financing activities	(2,708)
(9,772)	Net Increase/(Decrease) in Cash and Cash Equivalents	(244)
10,970	Cash and Cash Equivalents at the beginning of the reporting period	1,198
1,198	Cash and Cash Equivalents at the end of the reporting period	953

Note on operating activities

	The cash flows from operating activities include the following items	
0	Interest Payable	(19)
13	Interest Receivable	0
13		(19)

Notes to the Financial Statements

The following notes provide more detailed information in order to assist understanding of the main financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL PRINCIPLES

As a Joint Committee, YPO is no longer required to comply with the Accounts and Audit regulations 2015. However, it has been agreed that YPO will continue to produce a statement of accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The Organisation recognises that the Comprehensive Income and Expenditure Statement does not fully comply with the Code of Practice by not including a service analysis. This is due to the Organisation being a single service business operation with no reliance on external funding, or having any direct impact on the finances of any member authority. Additionally the Organisation's status as a joint committee prevents it from taking advantages of certain statutory overrides contained within the code.

The Organisation has complied with the Code of Practice in all other respects and has concluded that the financial statements present a true and fair view of the authority's financial position, financial performance and cash flows.

The following policies have been adopted in compiling the accounts:

Fundamental Accounting Concepts:

- The accounts have been prepared on a historical cost basis, except that certain categories of assets are re-valued at regular intervals.
- The revenue and capital accounts are maintained on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received. Income is also matched with associated costs and expenses as far as the relationship can be established or justifiably assumed.
- Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.
- Income has only been recognised within the accounts where there is a reasonable certainty, and proper allowances have been made for all foreseeable losses and liabilities.
- The accounts have been prepared on a going concern basis. The impact of the Covid-19 pandemic in 2021 has been considered when reaching this assessment. However, during this time we haven't identified any material uncertainties and the period considered is not less than 12 months from the date of preparing these accounts. The factors we have considered in reaching this judgement include the fact that YPO has remained operational and continued supplying the public sector during this period, in addition is the continued support we have received from our lead authority, the nature of our customers means that outstanding invoices will be paid and cash will continue to flow into the business and extensive financial modelling has taken place to assess the impact of this outbreak and prepare us for any scenario.
- The accounting statements have been prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than their formal legal character.
- As allowed under the Code the concept of materiality has been utilised in the process of preparing the accounts, such that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts by an informed reader.
- Where estimating techniques are required to enable the accounting practices adopted to be applied, the techniques which have been used are, in YPOs view, appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and, where practical, the effect on the results for the current period are separately disclosed, Note 4 to the financial statements provides further details.
- In accordance with the Code, where an accounting treatment is prescribed by law, then it has been applied, even if it contradicts accounting standards or generally accepted accounting concepts.

a. ACCRUALS OF INCOME AND EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular debtors and creditors for revenue and capital transactions are accrued, except for certain cases which are not considered material. For items of this nature, a consistent approach is adopted.

b. INCOME RECOGNITION

Income is recognised as the value of invoiced sales during the year, adjusted for the value of deliveries prepared to 31st December for which invoices were not raised until January. Income is recognised in line with IFRS 15 and only when the performance obligations have been met.

Income from our stock and food business, where orders are fulfilled by the Organisation, is recognised once delivery to the customer has been confirmed. Income from our direct supply business, where orders are fulfilled by a third party supplier, is recognised when confirmation of delivery has been provided by the third party supplier.

Rebate income, earned through spend across our framework contracts, is recognised when the supplier of the framework service or goods confirms that the service / goods has been provided to the customer.

Notes to the Financial Statements

c. OVERHEADS

The Organisation is a single service entity and as such all overhead costs are included in the revenue account inclusive of accruals prepayments for the period to which they relate.

d. COMPONENTISATION OF NON CURRENT ASSETS

Non Current assets valued through the Organisation's five year programme of valuations are assessed for any significant components, where the value of the asset is greater than £1 million on revaluation. If an individual component's value is deemed by the business to be significant in relation to the total value of the asset then that component will be depreciated separately.

Capital expenditure is monitored throughout the year and included in the budget and business planning process to identify replacement or changes of a significant component on non current assets.

The carrying value of any component being replaced will be charged to the Comprehensive Income and Expenditure Statement as a disposal. This balance is then reversed out of the General Fund in the Movement in Reserves Statement and posted to the Joint Committee Capital Adjustment Account.

e. NON CURRENT ASSETS

- i) Expenditure on the acquisition, creation or enhancement of non current assets , with a value in excess of £5,000, is capitalised on an accruals basis, provided they have an estimated life in excess of one year. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits is charged as an expense when it is incurred. All expenditure on non current assets that is capitalised is recognised in the Organisation's Asset Register and Balance Sheet and depreciated over the useful life of the asset.
- ii) The different categories of non current assets are valued differently. Non current assets not classed as land and buildings are valued at purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- iii) Non-current Assets classed as land and buildings, which are included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from the fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified the accounting treatment is that the carrying amount of the asset is written down against any revaluation gain in the Revaluation Reserve or where there is no, or insufficient balance in the Revaluation Reserve the asset is written down against the Comprehensive Income and Expenditure Statement.

The latest valuation date of land and buildings was 10th December 2021, and was carried out by J Duck FRICS of NPS Humber Ltd.

- iv) Land and buildings are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where an impairment of land and buildings has been recognised it is accounted for as a charge in the Comprehensive Income and Expenditure Statement where there is no or insufficient accumulated gains in the Revaluation Reserve against which all losses can be written off.

Where an impairment loss is reversed subsequently, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

- v) Where a revaluation loss on land and buildings is recognised as part of a review or a valuation exercise it is accounted for as a charge against the Comprehensive Income and Expenditure Statement where there is no or insufficient accumulated gains in the Revaluation Reserve which all losses can be written off.
- vi) When a non-current asset is disposed of, or decommissioned, any gain or loss on the disposal is credited or charged to the Comprehensive Income and Expenditure Statement. The gain or loss is calculated by reference to the difference between the sale proceeds less costs of disposal of the asset and the value of the asset in the balance sheet. Any revaluation gains in the Revaluation Reserve, relating to the asset disposed of, are transferred to the Joint Committee Capital Adjustment Account.

Receipts from disposals are credited to the Usable Capital Receipts Reserve and can be used for new capital investment. Receipts are appropriated to the Usable Capital Receipts Reserve from the Movement in Reserves Statement.

- vii) Depreciation has been provided for using the straight-line method on Buildings (excluding land), Vehicles and Equipment and is charged from the time the asset becomes operational. The useful lives of the various assets held on the Asset Register are as follows:

Notes to the Financial Statements

Freehold Buildings	2021
41 Industrial Park	41 years
Flanshaw Way	37 years
Motor Vehicles	up to 5 years
Warehouse and Office Equipment	up to 15 years
Computers	up to 5 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated with an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Joint Committee Capital Adjustment Account.

f. INTANGIBLE ASSETS

Intangible assets are assets that do not have any physical substance but which the Organisation controls access to the future economic benefits derived from them, either through custody or legal protection.

Expenditure on intangible assets is subject to the same recognition criteria as tangible non-current assets as stated in note d. Intangible assets will be brought on to the Balance Sheet at cost and amortised on a straight line basis over the period for which benefit is received. It is assumed there will be nil residual value. Annual reviews of the value of intangible fixed assets will be undertaken.

Amortisation has been provided for using the straight line method on Intangible assets and is charged from the time the asset becomes operational. The useful life of the Intangible assets held on the Register are as follows:

Internally generated & Software intangible assets - IT & Website Development/Testing & Project management - 3 years

g. RESERVES

The Organisation sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure financed from a reserve is incurred, it is charged to the Consolidated Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

The Organisation differentiates between usable and unusable reserves on the basis contained within the Code however certain statutory overrides allowable by statute to Local Authorities and contained within the Code are not available to a joint committee. Where this is the case the Organisation has voluntarily adopted the principles of the Code.

h. EMPLOYEE BENEFITS

The Organisation accounts for employee benefits in accordance with the requirements of IAS 19.

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the current salary rate. The accrual is charged to the Comprehensive Income and Expenditure Statement but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Organisation to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accrual basis to the relevant line in the Comprehensive Income and Expenditure Statement.

Where termination benefits involve the enhancement of pensions, organisational accounting procedures result in a charge to the General Fund balance for the amount payable by the Organisation to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are made to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Organisation are members of the Local Government Pensions Scheme known as the West Yorkshire Pension Fund and administered by Bradford Council. The scheme is a defined benefit scheme providing employees with a retirement lump sum and pension.

Notes to the Financial Statements

The Local Government Pension Scheme

The liabilities of the West Yorkshire Pension Fund attributable to the Organisation are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.0% on funded liabilities and 2.0% on unfunded liabilities (based on a weighted average of spot yield on AA rated corporate bonds).

The Organisation's share of the West Yorkshire Pension Fund assets are included in the Balance Sheet at their fair value:

- . quoted securities - current bid price
- . unquoted securities - professional estimate
- . unlisted securities - current bid price
- . property - market value

The change in the net pensions liability is analysed into seven components:

Current service cost - the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement.

Past service cost - the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Comprehensive Income and Expenditure Statement.

Interest Cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid debited to the Comprehensive Income and Expenditure Statement

Expected return on Assets - the annual investment return on the fund assets attributable to the Organisation, based on the average of the expected long term return credited to the Comprehensive Income and Expenditure Statement.

Gains or losses on settlements and curtailments - the result of actions to relieve the Organisation of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Comprehensive Income and Expenditure Statement.

Actuarial Gains and Losses - Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve.

Contributions paid to the West Yorkshire Pension Fund - cash paid as employers contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

The balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits

The Organisation has limited powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Scheme.

i. TAXATION

YPO, as a Joint Committee owned by local authorities, is exempt from Income, Corporation and Capital Gains Taxes. Income and expenditure normally excludes amounts relating to Value Added Tax (VAT), as VAT collected is payable to HM Revenue and Customs and VAT paid is normally recoverable from them. Exceptionally, if VAT is irrecoverable it is charged to revenue expenditure or capital expenditure as appropriate.

j. EXCEPTIONAL ITEMS AND PRIOR YEAR ADJUSTMENTS

Any material exceptional items are separately disclosed in the accounts.

Any material prior period adjustments arising from changes in accounting policies or from the correction of fundamental errors will be accounted for by restating the comparative figures in the financial statements and notes, together with the cumulative effect on reserves. The effect of any material prior period adjustments will be disclosed separately as a note to the Core Financial Statements.

k. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are reflected in the accounts up to the date when the Statement of Accounts was authorised for issue and are accounted for in accordance with IAS10.

Where an event arises which provides additional evidence relating to conditions existing at the Balance Sheet date, or which indicates that application of the going concern concept to the Organisation is not appropriate (an adjusting event), then adjustments will be made to the accounts, where the amounts are material .

Any material event, which concerns conditions that did not exist at the Balance Sheet date (a non-adjusting event), will be disclosed as a note to the Core Financial Statements. The note will state the nature of the event and, where possible, an estimate of its financial effect.

Notes to the Financial Statements

I. INTEREST RECEIVABLE/PAYABLE

All Interest is recognised in the Financial Statements during the period in which it became due for payment to or by the Organisation.

m. INVENTORIES

Inventories are valued at average cost, and shown in the accounts at the lower of cost or net realisable value.

n. LEASES

The Organisation accounts for leases in accordance with the requirements of IAS17.

YPO accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to YPO. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Non-current Assets held under finance leases are accounted for as part of Property, Plant and Equipment.

Rentals payable under operating leases are charged to revenue on a straight line basis over the term of the lease even if this does not match the pattern of payments (e.g. quarterly billing straddling an accounting period).

o. CONTINGENT LIABILITIES & ASSETS

Contingent liabilities & assets are not accrued in the accounting statements. Material contingent liabilities & assets are identified in a note to the core financial statements if there is a possible obligation, which may require a payment or transfer of economic benefits.

p. PROVISIONS

Provisions are recognised in the accounts in accordance with IAS 37, where:

- i) The Organisation has a present obligation (legal or constructive) as a result of a past event,
- ii) It is probable that a transfer of economic benefits will be required to settle the obligation, but the timing of the transfer is uncertain; and
- iii) A reliable estimate can be made of the amount of the obligation.

Contributions to provisions are charged to the appropriate revenue account and any subsequent expenditure arising, to which the provision relates, is charged to the provision. The level of each provision is reviewed at the year end and, if appropriate, adjusted by reversing the contribution to the provision and crediting the relevant revenue account.

q. FINANCIAL INSTRUMENTS

The Organisation's financial instruments are represented by bank balances, investments, loans receivable, trade creditors and trade debtors.

Bank balances are represented by cash balances held in UK bank accounts and are shown on the face of the Balance Sheet. Interest earned on balances are credited to the Comprehensive Income and Expenditure Statement.

Investments made with other Organisations earn a fixed interest agreed at the time of investment and are for a fixed term. Interest earned on investments are credited to the Comprehensive Income and Expenditure Statement.

Loans receivable constitute loans issued by the Organisation, all loans accrue interest on a daily basis and are for a fixed term.

Trade debtors are stated in the Balance Sheet at historical cost. Irrecoverable debt is written off in the Comprehensive Income and Expenditure Statement. The Organisation is restricted to dealing with customers in the Public Sector and therefore its exposure to bad debt is minimised.

Trade Creditors are carried at historical cost and represent amounts owing to third party suppliers. Creditor accounts are settled on a cash basis when:-

- satisfactory provision of the goods or service has been performed
- there is reasonable evidence that the goods or service is imminent or substantially complete
- an agreed contractual obligation exists to remit payment.

r. CASH & CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Notes to the Financial Statements

s. FOREIGN CURRENCY TRANSLATION

Where business transactions are processed in a currency other than Sterling the Sterling value at the point of the currency translation has been used. Where the amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate as at the 31 December. Resulting gains or losses are recognised in the Comprehensive Income and Expenditure Statement.

t. DEBTORS

Debtors are represented by balances due to the Organisation on trading activities net of an impairment allowance for expected credit losses. They are stated at historical cost.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice on Local Authority Accounting 2020/21 requires the Organisation to disclose information relating to the impact on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Organisation. There are no new accounting standards due to come into force in the next year.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying these accounting policies the Organisation has made certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are :

Application of code provisions

Judgements have been made with regards to applying the code provisions for Local Authorities to YPO, a Joint Committee. We recognise that certain provisions of the code do not apply to the Organisation, including certain disclosures concerning the General fund and usable / unusable reserves. However, we have continued to do so for presentational and decision making purposes and acknowledge that any powers attributed to this classification no longer applies to the Organisation.

Leasing

The Organisation has reviewed all classes of leases held by the Organisation and concluded that all existing leases to the 31st December 2021 constitute operating leases. This is with the exception of a lease agreement for the supply of IT equipment which has been classified as a Finance lease due to all the risks and rewards relating to the leased equipped transferring to YPO, details of this lease are included within note 15 of the Statement of Accounts.

Related Party Transactions

The Organisation trades extensively with its owning authorities however, as no one particular authority can exert any controlling influence over the Organisation and all transactions are on an arms length basis they are not classified as related parties in this statement of accounts. For clarity trading with member authorities is included under note 17 of this statement.

Asset ownership

Under s102 of the Local Government Act 1972, a Joint Committee does not have the corporate status to acquire assets. However, given that YPO both enjoys the economic benefits from and assumes liabilities for its land and building assets, the "substance over form" policy justifies the inclusion of the assets in the Organisation's accounts.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on either assumptions made by the Organisation about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Items included in this Statement of Accounts for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension assets and the discount rates used bring future assumptions to present values. A firm of actuaries is engaged to provide the Organisation with expert advice about the assumptions to be applied.

These assumptions interact in complex ways and could produce a range of different results depending on the mix of changes in assumptions. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of around £3.432m.

Framework Contract Income

This statement of accounts includes an estimate of income due to the Organisation from suppliers operating on the Organisation's framework contracts as at 31st December. This estimate is on the basis described in note 1 (point r).

Whilst every effort is made by the Organisation to accurately forecast balances due to the Organisation as at the year end, there is a risk that returns on these contracts may either exceed or be less than the estimate made at the date of the closure of the accounts. The impact on the statements in the following year will be dependent on the mix of positive and negative variances against estimates. If the estimate of income due was to be different by 10% this would represent a movement of around £508K.

Notes to the Financial Statements

Property, Plant & Equipment

Assets are valued by external valuers, their assumptions can lead to estimation uncertainty. Assets are also depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.

The Organisation takes independent advice on the valuation of buildings and believes the depreciation policies adopted accurately reflect the current market value of assets held, however there is a risk that any sale value will be very much dependent on the economic climate at the point of sale. At the year end the Organisation was not intending disposing of any major assets.

Foreign currency transactions

Transactions in foreign currencies are recorded in the statement of accounts in sterling using the spot exchange rate on recognition of the liability.

Goods in transit from an overseas source are included in this statement of accounts valued at the spot rate as at the 31st December and any exchange rate difference arising on the actual payment will be accounted for in the Comprehensive Income & Expenditure Statement. The difference relates to the movement in spot rates between the two events.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

During 2021 the following items of material income and expenditure that have been reflected in this statement of accounts. The main ones are:

- £1.4m of stock losses have been recognised in the year, this is significantly higher than the budget and higher than previous pre-covid years (2019 and before). and reflects the additional synchronisation work that has been ongoing throughout the year following the NAV system implementation issues from December 2019.

Notes to the Core Financial Statements

6. RETIREMENT BENEFITS

Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, YPO offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Organisation has a commitment to disclose the liabilities as at the time that officers and employees earn their future entitlement.

The Organisation participates in the Local Government Pension Scheme (LGPS), administered by the West Yorkshire Pension Fund (WYPF). This is a funded defined benefit scheme, meaning that the Organisation pays contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The employers' rate of contribution for January to December 2021 was 14.1%. Employees contributions in 2021 were between 5.5% and 12.5% depending on salary.

In addition the Organisation has awarded discretionary post-retirement benefits upon early retirement - this is an unfunded element of the defined benefit final salary scheme, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions relating to post - employment benefits

The Organisation is required to recognise the cost of retirement benefits when employees earn them, rather than when they are actually paid to pensioners. However the charge made against the general fund balance is limited to the employer's contributions payable to the Pensions Fund in the year, so the real cost of retirement benefits is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Statement of Movement in Reserves Statement during the year.

	Funded	Unfunded	Total	Funded	Unfunded	Total
	2020	2020	2020	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Account						
Cost of Service						
Current Service Cost	5,912	0	5,912	6,642	0	6,642
Past Service Cost	47	0	47	75	0	75
Curtailement (Gain)/Loss	0	0	0	0	0	0
Financing and investment income and Expenditure						
Net interest Expense	804	17	821	740	10	750
Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services	6,763	17	6,780	7,457	10	7,467
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability						
Return on plan assets (gains)/losses	(438)	0	(438)	(13,845)	0	(13,845)
Actuarial (Gains) and losses-demographic assumptions	(5,729)	(64)	(5,793)	0	0	0
Actuarial (Gains) and losses-experience	(4,283)	(71)	(4,354)	(1,362)	(11)	(1,373)
Actuarial (Gains) and losses-financial assumptions	18,250	30	18,280	(361)	(1)	(362)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	14,563	(88)	14,475	(8,111)	(2)	(8,113)
Movement in Reserves Statement						
Reversal of net charges made to the Comprehensive Income and Expenditure Statement for post employment benefits in accordance with the Code	(6,763)	(17)	(6,780)	(7,457)	(10)	(7,467)
Actual amount charged against the General Fund balance for pensions in the year:						
- employer's contributions to the pension scheme	1,993	56	2,049	1,964	56	2,020
- retirement benefits payable to pensioners	0	0	0	0	0	0
Total Charge against the General fund	(4,770)	39	(4,731)	(5,493)	46	(5,447)

Notes to the Core Financial Statements

Post retirement mortality assumptions as at 31st December applicable to funded and unfunded pensions

	Males		Females	
	2020	2021	2020	2021
Rating to base table	0	0	0	0
Scaling to base table rates (Current)	105%	105%	95%	95%
Scaling to base table rates (Future)	120%	120%	105%	105%
Cohort improvement factors	CMI 2018	CMI 2018	CMI 2018	CMI 2018
Minimum underpin to improvement factors	1.50%	1.50%	1.50%	1.50%
Future lifetime from age 65 (currently aged 65)	21.8	21.8	24.6	24.6
Future lifetime from age 65 (currently aged 45)	22.5	22.5	25.7	25.7

Pension assets and liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Organisations obligation in respect of its defined benefit schemes is as follows:

	Funded		Unfunded		Total	
	2020	2021	2020	2021	2020	2021
	£000s	£000s	£000s	£000s	£000s	£000s
Recognised in the Balance Sheet						
Fair value of assets	105,236	119,703	0	0	105,236	119,703
Present value of the defined benefit obligation	(159,016)	(163,408)	(745)	(687)	(159,761)	(164,095)
Net liability arising from defined benefit obligation	(53,780)	(43,705)	(745)	(687)	(54,525)	(44,392)

Reconciliation of Fair Value of the Scheme Assets

The unfunded liabilities do not have assets in the scheme to support them. Below is a breakdown of scheme assets in relation to the funded liabilities.

	2020	2021
	£'000	£'000
Balance at 1st January	102,988	105,236
Interest income	2,058	1,468
Remeasurement gains/ (losses) on assets	438	13,845
Employer contributions	1,993	1,964
Contributions by scheme participants	878	896
Benefits paid	(3,119)	(3,706)
Balance at 31st December	105,236	119,703

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	2020	2021
	£'000	£'000
Balance at 1st January	(145,087)	(159,761)
Current Service Cost	(5,912)	(6,642)
Interest Cost	(2,879)	(2,218)
Contributions by scheme participants	(878)	(896)
Remeasurement gains and (losses)	0	0
Actuarial gains and (losses) - demographic assumptions	5,793	0
Actuarial gains and (losses) - financial assumptions	(18,280)	362
Actuarial gains and (losses) - experience	4,354	1,373
Benefits paid	3,175	3,762
Past service costs and curtailments	(47)	(75)
Balance at 31st December	(159,761)	(164,095)

Pension Assets

The discretionary benefits arrangements have no assets to cover liabilities. The West Yorkshire Pension Fund's assets consist of the following categories, by proportion of the total assets held:

	Assets held	
	2020	2021
Equity investments	79.00%	80.60%
Property	4.00%	3.80%
Government Bonds	9.20%	7.80%
Corporate Bonds	4.80%	3.80%
Cash	1.30%	2.40%
Other assets *	1.70%	1.60%
TOTAL	100.0%	100.0%

* Other holdings may include hedge funds, currency, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The scheme has been assessed by Hewitt Associates Limited, an independent firm of actuaries. Estimates for the fund have been based on the latest full valuation of the funded scheme as at the 31st March 2019 and the unfunded scheme as at 31st December 2021.

	<u>2020</u>	<u>2021</u>
Mortality assumptions		
Males		
Pensioner member aged 65 at accounting date	21.8 years	21.9 years
Active member aged 45 at accounting date	22.5 years	22.6 years
Females		
Pensioner member aged 65 at accounting date	24.6 years	24.7 years
Active member aged 45 at accounting date	25.7 years	25.8 years
Rate of Inflation (CPI)	2.10%	2.70%
Rate of Increase in Salaries	3.35%	3.95%
Rate of Increase in Deferred Pensions	2.10%	2.70%
Rate of Increase in Pensions	2.10%	2.70%
Rate for discounting scheme liabilities	1.40%	2.00%
Take-up of option to convert annual pension into retirement lump sum		

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

Impact on the Defined benefit Obligation in the Scheme	Increase in Assumption £000	Decrease in Assumption £000
Member Life expectancy (+ or - 1 year) *	6,046	(6,046)
Rate of increase in salaries (+ or - 0.1%)	(490)	490
Rate of increase in pensions (+ or - 0.1%)	(3,105)	2,941
Rate for discounting scheme liabilities (+ or - 0.1%)	3,432	(3,595)

* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

Impact on the Organisation's Cash Flows

The liabilities show the underlying commitment that the Organisation has in the long run to pay post employment / retirement benefits. The total liability of £43,705k has a substantial impact on the net worth of the Organisation as recorded in the balance sheet. Arrangements for funding the deficit mean that the financial position of the Organisation remains healthy.

- The deficit on the scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The contributions expected to be made by the Organisation to the Local Government Pension Scheme in the year to 31st December 2022 are £1.926m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2022 are £0.056m.

The weighted average duration of the defined benefit obligation for scheme members is 21.7 years.

Notes to the Core Financial Statements

7. Property Plant and Equipment

2021

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2021
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the CIES

At 31 December 2021

Depreciation and impairments

Opening balance 1 January 2021
 Charge for depreciation 2021
 Depreciation reversed in line with revaluation

At 31 December 2021

Net Book Value at 31 December 2021

Net Book Value at 1 January 2021

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2021	9,820	851	1,145	3,679	15,495
Revaluation increase / (decrease) recognised in the Revaluation Reserve	1,754	0	0	0	1,754
Revaluation increase / (decrease) recognised in the CIES	73	0	0	0	73
At 31 December 2021	11,647	851	1,145	3,679	17,322
Depreciation and impairments					
Opening balance 1 January 2021	0	609	1,050	3,541	5,200
Charge for depreciation 2021	184	29	55	69	337
Depreciation reversed in line with revaluation	(184)	0	0	0	(184)
At 31 December 2021	0	638	1,105	3,610	5,353
Net Book Value at 31 December 2021	11,647	213	40	69	11,969
<i>Net Book Value at 1 January 2021</i>	<i>9,820</i>	<i>242</i>	<i>95</i>	<i>138</i>	<i>10,295</i>

2020 Comparative

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2020
 Revaluation increase / (decrease) recognised in the Revaluation Reserve
 Revaluation increase / (decrease) recognised in the I&E

At 31 December 2020

Depreciation and impairments

Opening balance 1 January 2020
 Charge for depreciation 2020
 Acc depreciation write out to gross carrying amount

At 31 December 2020

Net Book Value at 31 December 2020

Net Book Value at 1 January 2020

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2020	9,187	851	1,145	3,679	14,862
Revaluation increase / (decrease) recognised in the Revaluation Reserve	670	0	0	0	670
Revaluation increase / (decrease) recognised in the I&E	(37)	0	0	0	(37)
At 31 December 2020	9,820	851	1,145	3,679	15,495
Depreciation and impairments					
Opening balance 1 January 2020	0	575	984	3,390	4,949
Charge for depreciation 2020	165	34	66	151	416
Acc depreciation write out to gross carrying amount	(165)	0	0	0	(165)
At 31 December 2020	0	609	1,050	3,541	5,200
Net Book Value at 31 December 2020	9,820	242	95	138	10,295
<i>Net Book Value at 1 January 2020</i>	<i>9,187</i>	<i>276</i>	<i>161</i>	<i>289</i>	<i>9,913</i>

Notes to the Core Financial Statements

7a. Intangible Assets

During 2018 the Organisation invested in the development of an Apprenticeship Levy framework portal which would allow our customers to sign up to a range of apprenticeship courses available through the levy scheme. All spend through the portal would generate a rebate income to YPO. All fees paid to external developers have been capitalised as Intangible Assets and amortised over 3 years from the time the portal became operational.

	2020	2021
	Intangible Assets £'000	Intangible Assets £'000
Cost or valuation		
Opening balance 1 January	192	192
Additions	0	0
Impairment	0	0
Disposals	0	0
At 31 December	192	192
Amortisation and impairments		
Opening balance 1 January	147	172
Amortisation charge for the year	25	20
Impairment	0	0
Disposals	0	0
At 31 December	172	192
Net Book Value at 31 December	20	0
Net Book Value at 1 January	45	20

8. Inventories

	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
31st Dec 2021			
Opening inventory balance	24,288	206	24,494
Purchases	51,265	322	51,587
Recognised as an expense in year	(55,518)	(312)	(55,830)
Closing Inventory balance	20,035	216	20,251
Impairment loss allowance for inventory write off	(2,678)		(2,678)
Closing Inventory balance net of impairment loss	17,357	216	17,573
31st Dec 2020			
Opening inventory balance	13,664	226	13,890
Purchases	65,945	237	66,182
Recognised as an expense in year	(55,321)	(257)	(55,578)
Closing Inventory balance	24,288	206	24,494
Impairment loss allowance for inventory write off	(7,080)	0	(7,080)
Closing Inventory balance net of impairment loss	17,208	206	17,414

Notes to the Core Financial Statements

9. DEBTORS AND PAYMENTS IN ADVANCE

Debtors: Amounts due within one year

Trade Debtors

other local authorities
NHS bodies
bodies external to general government (i.e. all other bodies).

Accumulated Absences
Less - Impairment Allowance

Payments in Advance and accrued income

bodies external to general government (i.e. all other bodies).

Total

31st Dec 2020 £'000	31st Dec 2021 £'000
11,951	8,432
8	8
2,455	2,677
2	1
(614)	(614)
13,801	10,504
6,488	5,357
20,289	15,861

Debtors: Amounts due after more than one year

Loans Receivable

Total

31st Dec 2020 £'000	31st Dec 2021 £'000
500	500
500	500

10. CREDITORS AND RECEIPTS IN ADVANCE

Creditors represent monies owed by the Organisation at the Balance Sheet date, which have not yet been paid.

Creditors and Receipts in Advance

Trade Creditors

other local authorities
bodies external to general government (i.e. all other bodies).

Accruals
Finance Leases
VAT
Accumulated absences

Total

Restated 31st Dec 2020 £'000	31st Dec 2021 £'000
18	13
3,779	2,663
3,816	3,324
55	41
4,065	1,453
372	348
12,106	7,841

The 2020 numbers have been restated due to a loan of £3.5m from Wakefield Council has been reclassified as short term borrowing from short term creditors. There is no impact on the financial position of the Organisation as a result of this reclassification.

Notes to the Core Financial Statements

11. SHORT TERM BORROWING

Opening Balance 1st January	
Short term loans from Wakefield Council	
Repayments in year	
Closing Balance 31st December	

31st Dec 2020	31st Dec 2021
£'000	£'000
0	3,500
6,500	3,500
(3,000)	(3,500)
3,500	3,500

12. FINANCIAL INSTRUMENTS

The Organisation's financial instruments are represented by bank balances, investments made in line with the Organisations Treasury Management Policy, trade creditors, trade debtors and loans receivable. Certain risks are associated with these classes of cash and cash equivalents as follows.

All of the Organisation's financial assets are carried on the balance sheet at amortised cost less impairment. As all financial assets are simple in nature the disclosures included in these accounts are representative of that.

Bank balances are held in UK bank accounts and earn interest based on aggregated overnight investments rates determined by our banking providers. Risks to cash arise in the form of banking failures within the UK.

Investments represent cash deposits made with other local authorities which earn a fixed interest rate agreed at the time of investment and are for a fixed term. Risks arise in the form of banking failures within the UK. As at the 31st December no amounts were invested.

The risks associated with Investments are managed through the adoption of a Treasury Management Policy. YPO adopts the key recommendations of CIPFA's Code of Practice entitled "Treasury Management in the Public Services" within its policy statement. The Organisation's high level policy for investments is to invest its monies prudently, considering security first, liquidity second and yield last, carefully considering its investment counterparties.

Debtors are comprised of customers and some trade suppliers owing funds to the Organisation. The inherent risk is one of failure to settle outstanding debts due to bankruptcy or other financial problems. Most customers are within the public sector which mitigates this risk to a large extent.

Financial Assets	Non-Current		Current		Total	
	31/12/2020 £000's	31/12/2021 £000's	31/12/2020 £000's	31/12/2021 £000's	31/12/2020 £000's	31/12/2021 £000's
Amortised Cost - Debtors	500	500	13,799	10,500	14,299	11,000
Total Financial Assets	500	500	13,799	10,500	14,299	11,000

An impairment allowance of £614k (2020 £614k) has been included against all current debtors. Impairment calculations are based on the expected credit losses arising from the full instrument over the next 12 months and not on an individual level, this credit risk is reviewed frequently throughout the year and the allowance increased in line with the risk.

Non-current debtors constitute a loan issued in July 2018 to one of our related parties, YPO Procurement Holdings Ltd, for £500K. The purpose of the loan was to allow YPO Procurement Holdings to invest in EdTech Impact Limited for 30% of their Ordinary shares. The risk is that the related party, or the new associate, becomes insolvent and therefore repayment of the loan is unlikely. As at the 31st December 2020 the full capital amount, plus the accrued daily interest of 3% above the Bank of England base rate, is still outstanding.

The risks associated with our loans receivable are managed by the close monitoring of the borrower's financial performance and balance sheet position on a monthly basis. This allows for any potential credit risks to be identified as soon as possible and actions put in place to prevent the risks from materialising, as at the 31st December 2021 no impairment allowance has been made for this.

Creditors are suppliers of goods and services to the Organisation. Risk is minimised from a robust set of procedures to ensure that all goods and services supplied to the Organisation are properly ordered and received prior to the payment of any sums due.

Financial Liabilities	Non-Current		Current		Total	
	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021
Amortised Cost - Trade Creditors	0	0	3,798	2,676	3,798	2,676
Total Financial Liabilities	0	0	3,798	2,676	3,798	2,676

Notes to the Core Financial Statements

13. MOVEMENTS IN RESERVES

The General Fund Reserve represents the cumulative retained surplus built up over the life of the business. The General Fund Reserve is used to finance growth in working capital and supports the medium term plans of the business.

The table below shows the balances held in other reserves at the start and end of the year and the net movement in the year. The balances represent undistributed reserves payable to the member authorities.

Reserve	31st Dec 2020 £'000	31st Dec 2021 £'000	Net Movement in the Year £'000	Note
<u>Usable reserves</u>				
General Fund Balance	22,935	22,703	(232)	I
<u>Unusable reserves</u>				
Joint Committee Capital Adjustment Account	9,683	9,445	(239)	ii
Earmarked Pension reserve	(54,525)	(44,392)	10,133	iii
Earmarked Accumulated Absences Account	(372)	(348)	24	iv
Revaluation reserve	1,087	2,979	1,892	v
Total reserves	(21,192)	(9,613)	11,579	

(I) To protect the Organisation against unforeseen events and the realisation of contingent liabilities. Included within the overall General Fund balance is the Financial Stability Fund which as at 31st December 2020 had a balance of £1m.

	2020 £'000	2021 £'000
General fund balance		
Balance brought Forward 1st January	29,447	22,935
Surplus or (deficit) on operations	(11,882)	(5,914)
Total comprehensive income and expenditure	(11,882)	(5,914)
Depreciation and impairment	452	260
Reversal of IAS 19 charges to I&E	6,780	7,467
Employer's pension contributions	(2,049)	(2,020)
Movement in employee absence accrual	188	(24)
Total voluntary adjustments	5,370	5,683
Total transfers to/from cash reserves	0	0
Total transfers to/from earmarked reserves	5,370	5,683
Balance Carried Forward 31st December	22,935	22,703
Movement in year represented in the Movement in Reserves Statement	(6,512)	(232)

(ii) The Joint Committee Capital Adjustment Account is an earmarked reserve representing the accumulation of the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal, offset by the resources that have been set aside to finance capital expenditure.

The Joint Committee Capital Adjustment Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure and to repay debt.

	2020 £000	2021 £000
Joint Committee Capital Adjustment Account		
Balance brought Forward 1st January	10,134	9,683
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(452)	(260)
Adjusting amounts written out of Revaluation Reserve	1	21
Net Written out amount of the cost of non-current assets consumed in the year	9,683	9,445
Capital financing applied in the year	9,683	9,445
Balance Carried Forward 31st December	9,683	9,445
Movement in year represented in the Movement in Reserves Statement	(450)	(239)

Notes to the Core Financial Statements

(iii) The Earmarked Pension Reserve is an earmarked reserve representing the difference between the actuarially calculated value of the pension fund assets and the present value of scheme liabilities.

	2020 £000	2021 £000
Earmarked Pension Reserve		
Balance brought forward 1st January	(42,099)	(54,525)
Actuarial Gains or (losses) on pension assets and Liabilities	(7,695)	15,580
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(6,780)	(7,467)
Employers pensions contributions and direct payments to pensioners payable in year	2,049	2,020
Balance Carried Forward 31st December	(54,525)	(44,392)
Movement in year represented in the Movement in Reserves Statement	(12,426)	10,133

(iv) The Earmarked Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year. Proper accounting arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2020 £000	2021 £000
Earmarked Accumulated Absences Account		
Balance brought forward 1st January	(185)	(372)
Settlement or cancellation of accrual made in preceding year	185	372
Amount to be accrued for current year	(372)	(348)
Amount to be charged to the Comprehensive Income and Expenditure Statement	(188)	24
Balance as at 31st December	(372)	(348)
Movement in year represented in the Movement in Reserves Statement	(188)	24

(v) The Revaluation reserve represents unrealised gains on the revaluation of property plant and equipment. The balance is reduced when assets with accumulated gains are:

- a) revalued downwards or impaired and the gains are removed
- b) used in provision of services and the gains are consumed through depreciation, or
- c) disposed of and the gains realised

	2020 £000	2021 £000
Revaluation Reserve		
Balance brought Forward 1st January	279	1,087
Upward revaluation of assets	810	1,913
Difference between fair value depreciation and historical cost depreciation	(1)	(21)
Balance Carried Forward 31st December	1,087	2,979
Movement in year represented in the Movement in Reserves Statement	808	1,892

Notes to the Core Financial Statements

14. EMPLOYEE EMOLUMENTS

The table below indicates the numbers of employees whose remuneration was greater than £50,000. Remuneration is defined as amounts paid to or receivable by an employee, including payments in kind, expenses allowances that would be chargeable to UK Income Tax. Termination payments are also included, which can lead to year on year comparisons being distorted.

REMUNERATION BAND £	No of Employees	
	2020	2021
50,000 - 54,999	4	11
55,000 - 59,999	3	-
60,000 - 64,999	2	4
65,000 - 69,999	4	4
70,000 - 74,999	2	2
75,000 - 79,999	1	1
80,000 - 84,999	1	-
TOTAL	17	22

The table below sets out the remuneration disclosure (Board of Directors) whose salary is £50,000 per year or more by job title. Comparative figures for 2020 are also shown and these officers are excluded from the above table.

2021						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	135,668	151	-	-	18,493	154,312
Executive Director	98,964	153	-	-	13,608	112,724
Executive Director	65,995	294	-	-	9,040	75,329
Executive Director	49,496	-	-	-	6,780	56,276
	350,123	598	-	-	47,920	398,641

2020						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	134,784	168	-	-	19,246	154,198
Deputy Managing Director	110,475	-	-	118,679	15,371	244,524
Executive Director	99,939	369	-	-	13,659	113,967
Executive Director	97,558	22	-	-	13,905	111,485
	442,755	559	-	118,679	62,182	624,174

The number of exit packages with the total cost per band of compulsory and other redundancies are set out below.

EXIT PACKAGE £	No. of compulsory Redundancies		No. of other Redundancies		Total no. of Exit Packages		Total cost of Exit Packages	
	2020 No.	2021 No.	2020 No.	2021 No.	2020 No.	2021 No.	2020 £000's	2021 £000's
0 - 20,000	1	-	3	5	4	5	8	38
20,001 - 40,000	-	-	1	1	1	1	23	22
40,001 - 60,000	-	-	-	-	-	-	-	-
60,001 - 80,000	-	-	-	1	-	1	-	71
80,000 and over	-	-	1	2	1	2	119	290
Total	1	0	5	9	6	9	150	421

Exit packages include redundancy costs, the cost of additional payments to the pension scheme and other departure costs.

Notes to the Core Financial Statements

15. LEASES

Finance Leases

The Organisation has entered into a Finance Lease for the supply of IT server and switches equipment.

The assets acquired under these finance leases are carried as Vehicles, Furniture and Equipment in the Balance Sheet at the following amounts

	2020 £000	2021 £000
Vehicles, Furniture and Equipment	96	41

The Finance lease liabilities are included in the current and long term liabilities in the Balance Sheet at the following amounts

	2020 £000	2021 £000
Finance Lease Liabilities (net present value of minimum lease payments)		
Due within one year	55	41
Due after one year and not later than five years	41	0
Minimum lease payments	96	41

The minimum lease payments will be payable over the following periods

	Minimum Lease Payments		Finance Lease Liabilities	
	2020 £000	2021 £000	2020 £000	2021 £000
Not later than one year	26	41	55	41
Later than one year and not later than five years	70	0	41	0
Later than five years	0	0	0	0
	96	41	96	41

Operating Leases

The Organisation has entered into operating leases with various lives. The future minimum lease payments due under non-cancellable leases in future years are:

	2020 £000	2021 £000
Not later than one year	158	451
Later than one year and not later than five years	191	690
Later than five years	2,320	2,274
	2,669	3,416

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2021 were £309K (2020 £377k) of which £29k was rent of Flanshaw Way. The later than five years figure is comprised entirely of a long term lease agreement on the land element of a warehouse property held at Flanshaw Way in Wakefield and a new short term lease of a warehouse at Unit K, Kenmore Road, Wakefield.

16. EXPENDITURE AND FUNDING ANALYSIS

The analysis of Income and Expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Code. This is different to the basis on which the Organisation carries out its budgeting decision making and planning process.

The following shows how the Organisations financial reporting output can be reconciled to the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

2020 £'000	YPO Profit & Loss	2021 £'000
	Trading	
70,460	Stores	70,068
9,391	Food	9,804
19,770	Directs	19,917
99,621	Total Invoiced Sales	99,789
(70,250)	Cost of Sales	(69,276)
29,371	Gross Margin	30,512
5,046	Rebates	5,939
1,799	Other Income	2,047
36,216	Total Income	38,498
	Operating Costs	
(19,290)	Employment costs	(20,095)
(1,047)	Premises	(1,299)
(16,892)	Supplies and Services	(8,094)
(4,531)	Transport	(5,210)
(127)	SLA costs	(103)
(225)	Financial & Misc.	297
(452)	Depreciation	(260)
(42,564)	Total Operating Costs	(34,765)
13	Interest (payable)/receivable	0
-	Profit/(loss) on disposal of assets	-
-	Dividend paid	-
-	Pension costs	-
(6,335)	Surplus or (deficit)	3,734

2020 £'000	Reconciliation of P&L Account to I&E Account	2021 £'000
(6,335)	Net Profit in P&L Account	3,734
(5,548)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	(9,628)
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
(11,883)	Surplus/(Deficit) on provision of service	(5,894)

Reconciliation of Profit and Loss Account to Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the profit and loss account relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

YPO Profit & Loss 2021	P&L Acct £'000	Amts not rptd for mgt dec making £'000	Alloc'n of reporting expenses £'000	I&E Statement £'000
Total Invoiced Sales	99,789	0	0	99,789
Cost of Sales	(69,276)	0	0	(69,276)
Gross Margin				
Discounts	0	0	0	0
Rebates	5,939	0	0	5,939
Other Income	2,047	0	0	2,047
Total Income	38,498	0	0	38,498
Operating Costs				
Employment costs	(20,095)	0	0	(20,095)
Premises	(1,299)	0	0	(1,299)
Supplies and Services	(8,094)	0	0	(8,094)
Transport	(5,210)	0	0	(5,210)
SLA costs	(103)	0	0	(103)
Financial & Misc.	297	0	0	297
Depreciation	(260)	0	0	(260)
Total Operating Costs	(34,765)	0	0	(34,765)
Interest (payable)/receivable	0	0	0	0
Exceptional Items	0	0	0	0
Revaluation gains / (losses)	0	0	0	0
Impairment allowances	0	0	0	0
Dividend paid	0	(4,181)	0	(4,181)
Earmarked reserves funding	0	0	0	0
Pension costs	0	(5,447)	0	(5,447)
Surplus or (deficit) on provision of service	3,734	(9,628)	0	(5,894)

Notes to the Core Financial Statements

YPO Profit & Loss 2020	P&L Acct £'000	Amts not rptd for mgt dec making £'000	Alloc'n of reporting expenses £'000	I&E Statement £'000
Total Invoiced Sales	99,621	0	0	99,621
Cost of Sales	(70,250)	0	0	(70,250)
Gross Margin	0	0	0	0
Discounts	0	0	0	0
Rebates	5,046	0	0	5,046
Other Income	1,799	0	0	1,799
Total Income	36,216	0	0	36,216
Operating Costs				
Employment costs	(19,290)	0	0	(19,290)
Premises	(1,047)	0	0	(1,047)
Supplies and Services	(16,892)	0	0	(16,892)
Transport	(4,531)	0	0	(4,531)
SLA costs	(127)	0	0	(127)
Financial & Misc.	(225)	0	0	(225)
Depreciation	(452)	0	0	(452)
Total Operating Costs	(42,564)	0	0	(42,564)
Interest (payable)/receivable	13	0	0	13
Profit/(loss) on disposals	0	0	0	0
Revaluation gains / (losses)	0	0	0	0
Impairment allowances	0	(486)	0	(486)
Dividend paid	0	(331)	0	(331)
Earmarked reserves funding	0	0	0	0
Pension costs	0	(4,731)	0	(4,731)
Surplus or (deficit) on provision of service	(6,335)	(5,062)	0	(11,883)

17. RELATED PARTY TRANSACTIONS

The Organisation is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Organisation or to be controlled or influenced by the Organisation.

Transactions with Founder Member Authorities are shown here for clarity. Founder member authorities are not classified as related parties under the Code of Practice or for the purpose of group accounting but have joint control over the Organisation's decision making and business planning. In addition to the founder members the Organisation has 71 associate members who have no influence over Organisational decision making.

Business transactions with the 13 founder members accounts for a significant proportion of the Organisation's turnover. Membership entitles these authorities to a share of any annual profits and equal powers over key business decisions.

The value of business transacted directly with each founder member through our catalogue business during the year and the debtor balance at the year end is detailed below. The value of these transactions form part of our Invoiced Turnover figure in the Comprehensive Income and Expenditure Account.

	Transaction value		Debtor balance as at 31 Dec
	2020 £'000	2021 £'000	2021 £'000
Barnsley MBC	1,482	1,775	276
Bolton MBC	1,730	1,959	58
Bradford MDC	3,967	4,244	141
City of York	680	812	20
Doncaster MBC	2,115	2,332	95
Kirklees MC	5,392	3,455	77
Knowsley MBC	926	1,058	69
MB of Calderdale	1,051	1,171	43
North Yorkshire CC	3,998	3,277	121
Rotherham MBC	1,932	2,126	94
St Helens MBC	1,257	1,379	34
Wakefield MdC	3,211	2,657	151
Wigan MBC	1,693	1,923	184
	29,434	28,167	1,362

Notes to the Core Financial Statements

Our founder members also procure goods and services through our frameworks business. The value of these transactions are included below. These spend values form part of an overall framework spend amount from which we receive an agreed rebate percentage from our approved suppliers. This rebate income is disclosed on the Comprehensive Income and Expenditure Account - 2021: £5,939k (2020: £5,046k)

	Transaction value	
	2020 £'000	2021 £'000
Barnsley MBC	11,855	24,647
Bolton MBC	5,529	8,198
Bradford MDC	39,748	15,465
City of York	9,090	5,422
Doncaster MBC	11,028	14,236
Kirklees MC	21,350	22,761
Knowsley MBC	4,235	4,601
MB of Calderdale	6,515	5,997
North Yorkshire CC	11,355	10,704
Rotherham MBC	11,875	14,024
St Helens MBC	7,207	5,020
Wakefield MdC	20,167	20,896
Wigan MBC	10,301	12,950
	170,255	164,921

The YPO Management Committee is made up of elected representatives from each Member Authority. No personal interest in material transactions have been disclosed by any of the elected representatives or senior officers of the Organisation.

One of the Member Authorities, City of Wakefield MDC, acts as servicing authority for YPO and as such, WMDC officers are the Organisation's statutory officers. YPO has commercial support agreements with Wakefield MDC covering certain accounting, treasury, human resource, legal services and vehicle maintenance arrangements. A summary of the costs incurred via Wakefield MDC are shown below, along with the creditor balance at the year end.

	Purchases (Exc. VAT)		Creditor Balance at 31st Dec	
	2020 £'000	2021 £'000	2020 £'000	2021 £'000
Wakefield MDC	1,034	956	46	(175)

The Organisation has incurred no expenditure with any other founder member during in 2021 or 2020.

In 2014 YPO Procurement Holdings and its subsidiary YPO Supplies Ltd began trading with YPO Joint Committee. Board members for YPO Procurement Holdings and YPO Supplies are also members of the Joint Committee board and therefore all transactions between the above companies are classed as related party transactions in accordance with the Code of practice for Local Authority Accounting.

The transactions involve a payment from YPO Supplies Ltd to YPO Joint Committee for picking items in the warehouse and the cost of telephone call handing. Those charges are at a standard cost. The cost of goods sold is paid by the Limited Company to the Joint Committee at an agreed transfer price. This includes an element of sales, procurement and marketing costs incurred by the Joint Committee. Other charges include a fee for governance and accounting services. The rationale is to recover the costs of operating on behalf of the new company.

Below is a summary of the amount of transactions that have occurred between the related parties and the amount of Balances outstanding. All transactions are sales from YPO Joint Committee.

	Transactions Value (Ex VAT) for the year £'000	Outstanding Balance as at 31st Dec 2021 £'000
YPO Procurement Holdings	0	0
YPO Supplies Ltd	1,259	109

Sales Invoices relating to the 2021 services provided were raised to YPO Supplies totalling £1.184m with a further £75K accrued in December 2021. accrued for at 31st December 2020.

In July 2018 YPO issued a loan to YPO Procurement Holdings for the sum of £500K. Interest will accrue on the loan at a daily rate of 3% above the Bank of England Base Rate and all capital and interest amounts are repayable by 2030. As at the 31st December the loan amounts still outstanding are.

Capital	2020 £ 500,000
Interest	58,528
	558,528

On the 31st December 2021 a review has been carried out on the recoverability of the loan issued. Taking into consideration the financial performance and financial position of YPO Procurement Holdings and its subsidiaries, and the expected growth over the next 9 years, it is expected that the full amount owing will be fully recovered by the end of the loan term.

Notes to the Core Financial Statements

18. AUDIT COSTS

The following fees were paid to the external auditors for services carried out:

Audit Costs	2020 £000	2021 £000
Fees payable to Mazars with regard to external audit services	30	30

19. EVENTS AFTER THE BALANCE SHEET DATE

No significant events were reported after the balance sheet date and up to the authorised for issue date.

Glossary of Terms

This glossary is provided to assist the reader. It gives explanations of common terms used in relation to local authority finance (which are not explained elsewhere in the Statement), many of which are used within this document.

Accounting Period

The period covered by the accounts, normally a period of twelve months commencing on 1 January. The end of the accounting period is the balance sheet date, 31 December.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

Accumulated Absences

Accumulated absences are sums owing to or from employees at the end of the accounting period not yet claimed back or paid over for hours owed to / from under the flexible working scheme and holiday days over or under used at the period end.

Annual Governance Statement

A non-statutory document which provides an overview of the governance arrangements within the Organisation, aids the effective exercise of Organisation functions, and includes arrangements for the management of risk.

Asset

An item having value in monetary terms. Assets are defined as current or long term. A current asset will be consumed or cease to have material value within the next financial year. A long term asset provides benefits to the Organisation and its services for more than one year.

Audit of Accounts

An independent examination conducted on a test basis, of the Organisation's financial statements.

Budget

A statement of spending plans and anticipated income for a financial year.

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalent vouchers

These are vouchers issued to customers as loyalty bonus which are redeemable against future purchases.

Current Assets

Is an amount which will become receivable or could be called in within the next accounting period.

Defined Benefit Plans

Are post employment benefit plans other than a defined contribution plan. Usually the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the plan. The plan may be funded or unfunded.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a long term asset, whether arising from use, passing of time or obsolescence through technological or other changes.

Direct Supply

Direct supply refers to the trading method employed by the Organisation where goods ordered

by the customer are delivered direct from the supplier rather than the Organisation.

either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Organisation's financial performance.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a long term asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments including any initial payments amount to substantially all of the fair value of the leased asset.

Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term "financial instrument" covers both financial assets and financial liabilities and includes trade receivables, trade payables and derivatives.

Financial Procedure Rules

Written rules of the Organisation relating to all matters with financial implications. All Organisation officers must comply with these rules.

Impairment

A reduction in the value of a long term asset below its carrying amount on the balance sheet.

International Accounting Standards (IAS)

Standards developed by the International Accounting Standards Board (IASB) that are required to be followed.

International Financial Reporting Standards (IFRS)

The Standards (including International Accounting Standards (IAS)) developed by the International Accounting Standards Board (IASB) and supported by interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) on which the accounts of this Organisation are based.

Inventories

Inventories include stocks held for resale and all other assets held for use within the Organisation.

Liability

A liability is where the Organisation owes payment to an individual or Organisation. A current liability is an amount which will become payable or could be called in within the next accounting period. A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period.

Net Book Value

The amount at which long term assets are included in the Balance Sheet i.e. their historical value or current value less the cumulative amounts provided for depreciation.

Net Expenditure

Gross expenditure less specific income.

Outturn

Actual income receivable and expenditure due in a financial year.

Payments in Advance

These are payments made in advance of goods or services being provided to the Organisation.

Prior year adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or

adjustments of accounting estimates made in prior years.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

A reserve is an amount set aside in one financial year and carried forward to meet liabilities in a subsequent financial year, both general and specific liabilities.

Turnover

Turnover is the value of invoices issued to customers for the supply of goods and services.

Useful life

The period over which the Organisation will derive benefits from the use of a long term asset.

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	<p style="text-align: center;">REPORT TO</p> <p style="text-align: center;">AUDIT & SCRUTINY SUB-COMMITTEE</p> <p style="text-align: center;">1ST JULY 2022</p>
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TITLE: ANNUAL HEAD OF INTERNAL AUDIT ASSURANCE OPINION (JANUARY TO DECEMBER 2021)

REPORT OF: SERVICE MANAGER FOR INTERNAL AUDIT & RISK

1. PURPOSE OF REPORT

- 1.1. To provide the 'Annual Head of Internal Audit Assurance Opinion' to the Audit and Scrutiny Sub-Committee on the effectiveness of Yorkshire Purchasing Organisation's (YPO) governance, risk management, and control processes.
- 1.2. There is also a summary of conformance to professional standards, the Public Sector Internal Audit Standards (PSIAS), including the outcome of a recent external quality assurance review by the Chartered Institute of Internal Auditors (CIIA).

2. BACKGROUND INFORMATION

- 2.1 As lead authority, Wakefield Council provides the internal audit services for YPO under a Service Level Agreement. A rolling, three-year internal audit plan is in place and is refreshed annually. The work for the 2021 calendar year was approved by the Audit and Scrutiny Sub-Committee on 1 July 2021.
- 2.2 As there is a rolling three-year plan this years' opinion factors in work completed between 2019 and 2021. Greatest weighting is placed on the 2021 work as it is a more recent reflection on the strength of governance, risk management, and control processes.
- 2.3 Summary details of the completed internal audit work for 2019 and 2020 have previously been presented to this Sub-Committee on 3 July 2019 and 2 July 2020.
- 2.4 As members will be aware the work of internal audit is required to conform to the mandatory requirements of the PSIAS. In relation to the provision of the annual assurance opinion this means that the report must include:
 - The actual annual internal audit assurance opinion which concludes on the organisation's framework of governance, risk management, and control (see Section 3 of this report).
 - A summary of the work that supports the opinion (see Section 4).
 - A statement on conformance with the PSIAS (see Section 5).

2.5 From an organisational perspective, and as recognised in reports to the Management Committee (for example from the Managing Director and Independent Director), 2021 has continued to be a challenging year for YPO. In delivering the annual assurance opinion these other sources of assurance have been considered.

2.6 It should also be noted that the delivery of internal audit work has also been impacted during 2021 because of these challenges and officers having other priorities.

3. Annual Internal Audit Assurance Opinion

3.1 Reasonable assurance is provided that YPO has effective governance, risk management, and control processes. It is my professional opinion that there are appropriate policies and procedures to help in the delivery of organisational objectives and priorities. This provides a solid foundation in terms of its control environment and is supported by a reporting structure that should allow sufficient scrutiny and challenge (i.e., governance arrangements), and a risk management framework that is consistent with good practice. The outcome of internal audit testing has provided moderate assurances around the strength of existing controls and compliance.

3.2 Positive assurance can also be provided that the internal audit work undertaken to support this opinion, has been conducted in accordance with the mandatory requirements of the Public Sector Internal Audit Standards. This is supported by the outcome of a recent external quality assurance review by the Chartered Institute of Internal Auditors (see Appendix A).

4. Basis of the Annual Internal Audit Opinion

4.1 The opinion is based upon the completion of audit work between 2019 and 2021, with greater focus on the work completed for 2020 (see Table 1). Some advisory time was also included within the plan to act as a ‘critical friend’ to the new warehouse management system project. The assurance opinions are defined in Table 2.

Table 1 – Summary of Internal Audit Work (2019 to 2021 Calendar Years)

Audit	Control Opinion	Compliance Opinion
Budgetary Control	Moderate	Moderate
Contractual Break Clauses – Phase 1	Moderate	Good
Contractual Break Clauses – Phase 2	Moderate	Good
Health and Safety	Substantial	Moderate
Main Accounting System	Moderate	Moderate
Stock Control	Substantial	Good
2020 Calendar Year		
Adherence to Legislation, COVID-19	Substantial	Substantial
Business Continuity Management	Moderate	N/A
Customer Engagement	Good	Good
Data Quality	Good	Good
Debtors	Moderate	Moderate
ICT Disaster Recovery Arrangements	Moderate	Good
LINK Programme Lessons Learnt Actions	Moderate	Moderate
Payroll	Good	Good
Transport Logistics	Good	Good
2019 Calendar Year		
Asset Management	Good	Good
Creditors	Substantial	Good
GDPR (Full Follow-Up)	Moderate	Limited

Audit	Control Opinion	Compliance Opinion
Health and Safety	Good	Substantial
Rebate Income	Good	Substantial

Table 2 Current Internal Audit Opinion Definitions

Opinion	Control Opinion Definition	Compliance Opinion Definition
Substantial	There are minimal control weaknesses and they present a very low risk to the control environment. This maximises the likelihood of achieving the key business objectives and priorities	The control environment has substantially operated as intended.
Good	There are minor control weaknesses that present a low risk to the control environment. Some opportunities have been identified that would further support the achievement of key business objectives and priorities.	The control environment has largely operated as intended although some minor errors have been identified.
Moderate	There are some control weaknesses that present a medium risk to the control environment. Improvement is required to ensure that key business objectives and priorities are achieved.	The control environment has mainly operated as intended although errors have been identified.
Limited	There are significant control weaknesses that present a high risk to the control environment. There is a significant risk that the area being reviewed is not effectively or efficiently supporting the achievement of key business objectives and priorities.	The control environment has not operated as intended with significant errors identified.
None	There are fundamental control weaknesses that present unacceptable levels of risk to the organisation.	The control environment has fundamentally broken down and is open to significant error or abuse.

4.2 The rest of this section provides a summary of the key internal audit findings.

Budgetary Control

4.3 The objective of the audit was to seek assurance on the effectiveness of income and expenditure controls, including treasury management arrangements. The scope of the work was restricted to the period up to and including December 2021.

4.4 There were several areas where good arrangements were in place, including:

- The budget build process from individual operational plans.
- Clear monitoring arrangements through the year.
- Borrowing being supported by signed credit agreements with a clear rationale and repayment dates.

4.5 At the time of the audit there was no documented Investment Strategy or suite of financial performance metrics to assist with decision-making and data analysis. The auditor also had difficulty in evidencing consultation between individual budget holders and the Finance Team when setting the budget.

4.6 It was also noted that there had been a delay in repaying Wakefield Council a short-term credit agreement. This has since been repaid in full and a new credit facility is in place.

Contractual Break Clauses (Phases 1 and 2)

4.7 This audit was included following the termination of the FedEx contract in 2021. The objective of the audit was to seek assurances on the arrangements in place for mitigating risks in the event of a failure by a business-critical single source supplier.

- 4.8 The audit was undertaken in two phases, the first focusing on the work undertaken by YPO in the identification of these business-critical single points of failure. The second phase then reviewed the governance and control arrangements in place to mitigate the impact of future risk.
- 4.9 Good assurance is provided for the process undertaken to identify the business-critical single points of failure. Altogether nine instances have been identified and these were RAG (Red, Amber, Green) rated to help determine the current residual risk. From this:
- Three were rated as 'green' and no further action is deemed to be necessary.
 - Three were rated as 'amber' as some further clarification was required around notice period (2 instances) or arbitration process in the event of a dispute (1 instance).
 - Three were rated as 'red' as there was no formal contract in place (2 instances) or a short notice period (1 instance).
- 4.10 YPO has a Contract Risk Register which is regularly reviewed and updated, although it had not been presented to the Strategic Management Team. This risk register is good at capturing information in relation to the procurement process but was weak in terms of contract management risks. There were also some opportunities for improving existing business continuity plans (regarding inclusion of all the business-critical single points of failure and seeking alternative sourcing arrangements) and incorporating all this into the Strategic Risk Register.
- 4.11 The following high priority recommendations were made:
- Contractual terms should be developed with the suppliers identified as having a significant impact if terminated.
 - Developing a new Contracts Risk Register with a focus on contract management arrangements for business-critical contracts.
- Health and Safety
- 4.12 This audit was included as there has been a national focus on staff wellbeing because of the Covid-pandemic and a move to more hybrid ways of working. In agreeing the scope, a focus was given to staff employed within the warehouse and transport parts of YPO.
- 4.13 The review found a lot of good practice in this area, including:
- A sound Health and Safety Policy and accompanying procedures.
 - Accreditation with the ISO 45001 Health and Safety Management System.
 - An induction process that helps to raise awareness of health and safety responsibilities. This is supported by the development of training matrices to help identify individual training needs.
 - Evidence of ongoing liaison with the Trade Unions on matters including health and safety.
- 4.14 The audit did find that there were opportunities for improvement regarding:
- The timeliness of investigations following reported incidents. Monitoring and learning lessons for future is an essential part of good practice in health and safety. The auditor was satisfied that the issue will be addressed through the introduction of a new checklist to support the process that was to be submitted to the Health and Safety Committee for adoption.
 - Evidencing of the training in some instances, for example that the drivers have been made aware of requirements set out in their Handbook.

- Reducing the amount of manual training records to assist with reporting arrangements.
- A reconciliation should then be undertaken to ensure that all mandatory training has been completed.

Main Accounting (Credit Notes and Refunds)

4.15 It should be noted that at the time of reporting this audit was at draft report stage.

4.16 The objectives of this audit were to seek assurance:

- On the effectiveness of processes for ensuring the accuracy of credit notes and refunds.
- That credit notes and refunds are accurately reflected in the ledger (Navision).
- That there are appropriate reporting arrangements in place.

4.17 The following table provides a summary of the refunds and credit notes over the last three calendar years.

Details	Credit Notes / Sales Returns			Refunds		
	2019	2020	2021	2019	2020	2021
Number	6,003	52,650	65,119	323	96	148
Total Value	£1.599M	£4.287M	£4.420M	£204,766	£99,183	£133,219
Average Value	£266.52	£81.42	£67.88	£633.95	£1,033.15	£900.13

4.18 As evident from the analysis there has been a significant increase in the volume and total value of credit notes / sale returns. Discussions with staff and audit testing indicate that this has been due to the following factors:

- The known difficulties in embedding the Navision system including incorrect deliveries. To compensate for this credit notes were being raised to account for the errors.
- The new system has increased reporting capabilities, including increased data fields for credit notes. A consequence of this is that it creates more than one line entry.
- The process for dealing with missing items has also changed. A credit and replacement invoice is generated when a sales return order is created.

4.19 The audit found that satisfactory arrangements are in place for credit notes and refunds, this includes permissions to access the system and clear reporting arrangements. From a governance and control perspective the following recommendations have been made to improve existing processes:

- A Refund Policy should be developed, communicated, and implemented. This will help to ensure a consistent approach to issuing refunds.
- Similarly, to put in place a policy or procedural note regarding the credit note process.

4.20 Compliance testing was undertaken on a sample of 15 refunds and 20 credit notes / sales returns. Whilst the auditor noted some variability in the quality of notes accompanying transactions there are no material points to report. The implementation of the recommendations above will address this issue.

Stock Control

4.21 This audit was included in the plan following the previously reported issues on the over ordering of personal protective equipment (PPE). The objective of the review was to seek assurance on the effectiveness of YPO's stock control arrangements.

- 4.22 It is pleasing to be able to provide 'substantial' assurance on the governance and control arrangements in place and 'good' assurance for compliance. Some areas to note are that:
- A new 'Product Information Group' process has been introduced to enhance stock control arrangements. This will still need some time to fully embed and improve processes.
 - There has been a noticeable improvement in reporting arrangements and use of performance metrics.

- 4.23 Some issues were identified in relation to stock counting which were reported at the time of the audit and corrected. This included a transposition error, and three minor counting errors.

Warehouse Management System – Advisory Work

- 4.24 The project is still in its infancy, so it is too early to provide any meaningful findings. Progress will be reported through future update reports.

Other Comments

- 4.25 At the July 2021 Audit and Scrutiny Sub-Committee it had been agreed that:
- This Sub-Committee would track a formal action plan following the production of the Annual Governance Statement.
 - This Sub-Committee would review the full Strategic Risk Register at least once per annum.
 - The Executive Sub-Committee would receive increased strategic performance reporting, particularly for non-financial matters.
 - Deep dives would take place on any areas identified as a major risk.
- 4.26 In reviewing the agenda items for the Management Committee and supporting Sub-Committees these are items that still need progressing.

Internal Audit Performance

- 4.27 There are two main performance measures which are reported to the Audit and Scrutiny Sub-Committee, these are:
- The full delivery of the internal audit plan.
 - Client satisfaction, which is based upon the outcome of a survey issued at the end of each audit.
- 4.28 A summary of the completed internal audit plan has been detailed in paragraphs 4.1 to 4.23. The move towards more hybrid ways of working has proved to be a challenge and this has impacted on the delivery of timely audits.
- 4.29 To address this, the Annual Internal Audit Plan for 2022 was approved in March 2022 but as already noted there have been delays in the finalisation of the 'Main Accounting' audit.
- 4.30 The Internal Audit Plan for 2021 was based upon 125 chargeable days, the actual time spent was approximately 165 days. The additional 40 days have not been charged for.
- 4.31 Client Satisfaction Questionnaires (CSQs) are an important element of our performance management responsibilities, helping to identify potential training needs and opportunities for improvement. Each CSQ asks for the client's feedback on a range of issues and are scored on a range of 1 (poor) to 4 (very good). The target is to average at least 3 (good) for each of the question areas.

- 4.32 No CSQs have been returned in the last two calendar years. It is therefore recommended that the Sub-Committee encourage officers at YPO to submit their completed CSQs, which will help inform any lessons to learn going forward.
- 4.33 It is however appreciated that there was a good response from YPO officers to the surveys that were issued by the Chartered Institute of Internal Auditors.

5. Conformance with the Public Sector Internal Audit Standards (PSIAS)

- 5.1 The PSIAS require that ‘the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity (Standard 1300) and communicate ‘the results of the quality assurance and improvement programme to senior management and the board’ (Standard 1320). For the purposes of the PSIAS the role of the ‘board’ is fulfilled by the Audit and Scrutiny Sub-Committee.
- 5.2 The purpose of these requirements is to ensure that quality is embedded in the internal audit activity and all its operations. It also promotes continuous improvement of the internal audit activity. Taken as a whole, this provides a foundation upon which senior management and the board can rely upon the work of internal audit.
- 5.3 There are the following three elements to the quality assurance and improvement programme:
- On-going quality assurance, which includes supervision of staff and performance monitoring.
 - Periodic internal assessments, usually undertaken on an annual basis.
 - External quality assessments, which must be undertaken at least once every five years.
- 5.4 Positive assurance is provided that these arrangements are in place and operating effectively at Wakefield Council.
- 5.5 An external quality assessment has been completed by the Chartered Institute of Internal Auditors in June 2022, and an opinion of ‘**generally conforms**’ (the highest rating) has been provided. A copy of the full report is attached as Appendix A and the following two recommendations have been made (which mainly relate to work carried out at Wakefield Council):
- The Service Manager for Internal Audit and Risk (SMIAR) should develop a robust, reliable, and value-adding approach to assurance mapping and reliance, to enhance team planning, delivery and the effectiveness of assurance provided to key stakeholders.
 - The SMIAR should enhance the team’s approach to monitoring progress and formalise reporting on outstanding recommendations to the Audit and Governance Committee (Wakefield Council’s).
- 5.6 The assessment usefully includes an internal audit maturity assessment which is graded against five opinion levels (excellent, good, satisfactory, needs improvement, and poor). This has been summarised in the table below and further details can be found at page 10 of Appendix A.

Internal Audit Maturity Matrix

Assessment Area	Opinion Level	Summary
Internal Audit Standards	Good	The IIA Standards are fully integrated into the methodology – mainly

Assessment Area	Opinion Level	Summary
		Generally Conforms.
Focus on Performance, Risk, and Adding Value	Good	Clear links between internal audit engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.
Coordination and Maximising Assurance	Needs Improvement	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.
Operating with Efficiency	Satisfactory	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.
Quality Assurance and Improvement Programme	Good	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with the Audit Committee.

5.7 In addition to the two recommendations a further eleven opportunities for improvement have also been identified (see pages 11 to 14 of Appendix A). These are being incorporated into the Internal Audit Quality Assurance and Improvement Programme Action Plan.

6. STRATEGIC IMPLICATIONS

6.1 The rolling three-year Internal Audit Plan factors in several key documents, including the YPO Business Plan, Strategic Plan, and the Strategic Risk Register. This provides high-level assurance that the Plan continues to be risk-based.

7. FINANCIAL IMPLICATIONS

7.1 The annual cost for the provision of Internal Audit for 2021 was £45,000.

7.2 The Plan also factors in the need to provide the Section 151 Officer (Chief Finance Officer for Wakefield Council) with independent assurance of the effectiveness and efficiency of controls for the main financial systems.

8. LEGAL IMPLICATIONS

8.1 All local authorities are required to have an effective internal audit process (Local Government Act 1972 and the Accounts and Audit Regulations 1996). As a Joint Committee YPO has determined that it will receive internal audit services through the lead member, Wakefield Council.

8.2 The Audit & Scrutiny Sub-Committee has delegated authority to provide the Management Committee with a 'reasonable assurance of the efficiency and effective operation of the overall internal control environment within YPO'. One of the sources of this assurance is through the work of Internal Audit.

9. EQUALITY IMPLICATIONS

9.1 Equality issues are considered when setting the rolling three-year internal audit plan.

10. RISK IMPLICATIONS

- 10.1 In line with the Public Sector Internal Audit Standards there is a requirement to set a risk-based audit plan. As already detailed, the Plan was based upon a number of core documents, including the Strategic Risk Register. In addition, input has been sought from senior management to help identify new and emerging areas of risk.

11. RECOMMENDATIONS

- 11.1 That the Audit & Scrutiny Sub-Committee:
- Receives and notes the internal audit annual assurance opinion.
 - Notes the positive outcome of the external quality assessment undertaken by the Chartered Institute of Internal Auditors (UK and Ireland). This concluded that internal audit 'generally conforms' (the highest rating) to the Public Sector Internal Audit Standards.
 - Encourages the completion of client satisfaction questionnaires by officers at YPO following the completion of internal audit work. This will help in the continual improvement of the Internal Audit Team, and thereby add value to the organisation.

Appendix A: Outcome of the External Quality Assessment

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Setting the standards **together**



Chartered Institute of
Internal Auditors

External Quality Assessment (EQA) Report for:

wakefieldcouncil

Prepared by John Chesshire
approved reviewer for
The Chartered Institute of Internal Auditors
14 June 2022

www.iaa.org.uk/eqa



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1.1 Background and Scope

The Wakefield Council internal audit and risk team has 16 inhouse team members. This comprises 12 internal audit personnel, three counter fraud staff and a risk manager. There are three current internal audit vacancies. Salford City Council provide IT audit services under contract.

The Service Manager - Internal Audit and Risk (CAE) reports functionally to the Audit and Governance Committee at Wakefield Council, and administratively to the Chief Finance Officer (S151).

Wakefield internal audit also deliver services to two other local organisations, West Yorkshire Joint Services (c55 days) and Yorkshire Purchasing Organisation (c125 days). Separate plans are developed for each.

The CAE is supported by an experienced Principal Audit Manager and three Lead Auditors. Other current team members include three Career Grade Internal Auditors and the Data Analyst. The Audit Manager and two Senior Auditor roles are currently vacant.

Wakefield Council internal audit previously had an external quality assessment (EQA) in 2017, undertaken as a peer review by Calderdale Council. We are delighted that the Wakefield Council internal audit team have commissioned us to undertake this EQA.

Our review was a full EQA, comprising several interviews with key stakeholders, as well as a survey sent to a further 44 managers across all three organisations that the team serve. We received 20 survey responses, a rate of 45.4%. Our overall conclusions differed slightly to the team's most recent, very diligent, self-assessment.

We conducted this EQA in a hybrid manner in Spring 2022.

1.2 Key Achievements

Wakefield Council internal audit continues a change journey initiated a few years ago with the arrival of the CAE and the Principal Audit Manager. This has included considerable staff turnover, restructuring and the implementation of a much more effective risk-based approach to internal audit delivery based on the Public Sector Internal Audit Standards (PSIAS). This transformed service continues to bed in, but is recognised by key stakeholders as being professional, thorough and increasingly effective. The service has certainly become significantly valued by the key stakeholders we spoke to during this EQA review.

The governance framework over the team is maturing, with established Audit and Governance Committee oversight, regular meetings, reporting and performance monitoring. The pandemic has hampered relationship-building with key stakeholders, but engagement is increasingly effective.

Wakefield Council internal audit undertake a range of diverse assurance and consulting engagements. Key stakeholders particularly praised the team's professionalism and its ongoing evolution, led by the CAE, over recent years.

We also received positive responses to our questions about the wider team and its services from the key stakeholders we interviewed. Key stakeholders felt confidence in their abilities, skills and reporting. Our survey results were also predominantly favourable. Comments were supportive of the refreshed team, with the only concerns around vacancies and some inexperience.

The CAE and Principal Audit Manager place high emphasis on ensuring the reliability and quality of internal audit engagement work. We support this.

Wakefield Council internal audit develop and deliver an annual risk-based audit plan. Key stakeholders felt engaged in the design of this. The CAE's 2020-2023 Audit Strategy is clear and professional.

The CAE and Principal Audit Manager actively monitor team performance and have implemented appropriate engagement-level quality assurance checks. The team use MKI, an audit management software application, but want to gain further benefit from functionality that is not currently used.

We believe that the supporting operational, engagement-level procedures, documentation and associated templates are well-written and fit for purpose. The Wakefield Council internal audit have detailed these in a variety of key documents. We are also pleased to see that a draft data analytics strategy and a revised report format are being introduced.

1.3 EQA Assessment Conclusion

Wakefield Council internal audit conforms with the majority of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the PSIAS and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard of quality in Internal Auditing.

To summarise, we are pleased to report that Wakefield Council internal audit are good in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

We believe that the Wakefield Council internal audit are satisfactory in their:

- Operating with efficiency

Finally, we consider that the Wakefield Council internal audit needs improvement in their:

- Coordinating and maximising assurance

The need to consider how best to rely on and coordinate with other assurance providers remains an emerging area of internal audit, and assurance practice. It depends as much on the nature and effectiveness of the other assurance providers as it does on internal audit. Wakefield Council internal audit intend to enhance their approach to assurance mapping and we support this.

The CAE recognises that the team must deliver a large volume of high-quality, insightful work to add real value and deliver the professional service they wish as efficiently as possible. They are embedding a further delivery and performance focus and better use of both data analytics, business partnering and MKI audit management software may assist in this.

In addition to the conformance recommendations, there is scope for improvement in several other areas as summarised in Section 3.3 below. As part of this EQA the CAE wanted our advice on practical next steps and improvement priorities and we have tried to respond to this request.

It will be appropriate for the function to say in reports and other literature, once it has addressed the issues raised, that it "conforms to the IIA's professional standards".

1.4 Conformance Opinion

The mandatory elements of the PSIAS and IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that Wakefield Council internal audit conforms to 56 of these principles, with partial conformance on just two principles and no ‘does not conform’ assessments. We have marked six principles as ‘not relevant’ as they do not apply to inhouse internal audit teams (2070), or relate to situations that have not occurred to date (1321, 1322, 2421, 2430, 2431. There have been no errors, omissions or non-conformances to date and the team have not stated that their work conforms with the PSIAS in their engagement reports).

Overall, we believe this reflects a **generally conforms** assessment against the PSIAS and IPPF, given the related standards and identified issues. This represents a very high level of achievement, and one that compares favourably with many public and private sector organisations we have reviewed over the last five years. We summarise this in the table below:

Summary of Conformance	Standards	Generally Conforms	Partially Conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	5			2	7
Managing the Internal Audit Activity	2000 - 2130	10	1		1	12
Performance and Delivery	2200 - 2600	17	1		3	21
Total		56	2		6	64

2.1 Area for improvement - Standard 2050

Performance Standard 2050 states that, “The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.”

The CAE has undertaken some assurance mapping and places reliance on certain external assurance providers, such as external audit and regulatory reviews. The internal audit team does not formally coordinate its work with other internal assurance providers and does not routinely place reliance on the work of internal bodies at the present time. The current approach to assurance mapping is detailed and would benefit from simplification and enhanced presentation to better engage key stakeholders.

The Internal Audit Charter could also usefully be updated to including a small section covering coordination and reliance, building upon the existing content included in section 10, relationships.

Recommendation

Response & action date

- 1 The CAE should develop a robust, reliable and value-adding approach to assurance mapping and reliance, to enhance team planning, delivery and the effectiveness of assurance provided to key stakeholders.

Agreed, this is something that the Service Manager for Internal Audit and Risk is progressing with the Data Analyst.

Target Date: December 2022.

2.2 Area for improvement - Standard 2500

Performance Standard 2500 states that, “The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management”.

Follow up occurs and follow up audit engagements are included on the periodic plan when necessary. Reporting on outstanding recommendations to the Audit and Governance Committee is limited and the team’s utilisation of the associated MKI recommendation tracking functionality could be improved.

Recommendation

Response & action date

- 2 The CAE should enhance the team’s approach to monitoring progress and formalise reporting on outstanding recommendations to the Audit and Governance Committee.

Agreed, we will improve on our current follow-up arrangements using the following three-stage approach:

Recommendation

Response & action date

- *Stage 1 – working with MKi Pentana to better utilise its reporting capability around recommendations.*
- *Stage 2 – working with officers to determine the latest position statement for all audit recommendations since April 2021.*
- *Stage 3 – reporting on progress to the Audit and Governance Committee and individual Corporate Directorates.*

Target Date: January 2023.

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with heads of internal audit, summarised in an internal audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered Institute of Internal Auditors.

It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in three formats:

- A SWOT analysis to recognise the accomplishments of the team and to highlight potential threats and opportunities for development. [\(See 3.1\)](#)
- A matrix describing the key criteria of effective internal audit, highlighting the level the Wakefield Council internal audit has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. [\(See 3.2\)](#)
- A series of improvement opportunities and suggestions which the internal audit team could use as a basis for an action plan. [\(See 3.3\)](#)

3.1 SWOT Analysis

What works well (Strengths)

Internal audit management are experienced, work well together and key stakeholders respect - and have confidence - in their insight and capabilities

Planning is inclusive, risk-based and includes a diverse range of assurance engagements, with time for consulting activity

There is a professional approach to the Quality Assurance and Improvement Programme, particularly internal assessments

Our stakeholder survey responses highlight strengths in the value of services and outputs, team independence and objectivity, effective working relationships and helping the organisation improve

What could be done better (Weaknesses)

In-house ICT internal audit capability and expertise is limited; although this is procured from Salford City Council, the team should seek to develop further skills in these areas

Assurance mapping, coordination and reliance - where appropriate - should be progressed

Improved understanding and use of the MKI Audit Management Software may identify opportunities for further efficiencies.

A more formal approach to reporting on follow up and outstanding overdue recommendations to the Audit and Governance Committee would be beneficial

What could deliver further value (Opportunities)

A move to more flexible periodic planning may encourage more agility and relevance in reviewing emerging risk areas

Embedding data analytics confidence and expertise across the team to enhance capability could deliver greater insight

Filling the outstanding team vacancies could add additional depth and resilience to the service, enabling more effective assurance and advisory services

What could stand in your way (Threats)

Loss of key staff could threaten service resilience and delivery and failure to recruit could impact the team's opportunity to develop further

Inefficient or poor-quality internal audit engagements or delivery could prevent the team from becoming trusted advisers and delivering objective, impactful assurance and advice on the subjects that really matter to key stakeholders

Budget or staff cuts could impact service delivery and threaten the CAE's ability to deliver an effective service and annual opinion

3.2 Internal Audit Maturity Matrix

Assessment	IIA Standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA Standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as a 3rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with and approved by AC.
Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value-added dimension.	Coordination is planned at a high level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with the AC.
Satisfactory	Most of the IIA Standards are found in the methodology with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date but form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	Q control not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

3.3 Improvement Opportunities

This section of the report details additional feedback and observations which, if addressed, could strengthen the impact of Internal Audit. These observations are not conformance points but support Internal Audit's ongoing development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

Opportunity A

People - Develop an internal audit skills strategy.

Suggestion: We believe that this could usefully benchmark the team's current skills profile and assess the future skills need over a three-to-five-year horizon. Any gaps could be identified and appropriate team learning and development priorities established.

Opportunity B

People - Fill outstanding vacancies. Recruiting and retaining good, experienced internal auditors is a challenge for every organisation at the present time.

Suggestion: Use the skills strategy to better inform key skills required in future recruitment exercises. Consider flexible options for filling vacancies (working patterns, those returning to work, those wanting to work reduced hours, contractors, experienced hires, secondments and guest auditors etc.) and repeat recruitment activity regularly in diverse media.

Opportunity C

People - Enhance data analytics and IT audit capability. The team have begun to employ data analytics in relevant assurance engagements with the recruitment of the Data Analyst. Technical ICT Audit has been delivered by an external provider under contract to date.

Suggestion: We believe that the CAE should consider how best to increase and embed the use of data analytics more rapidly across the team to enhance the depth and breadth of assurance provided. Some leading internal audit teams have moved to a methodology position of having to justify why data analytics should not be employed on an engagement. The expectation is that use of data analytics is the default position for every engagement.

Given the prevalence and criticality of ICT to every organisation, the CAE could consider whether it would be beneficial to develop greater inhouse technical ICT audit capability and (gradually) reduce reliance on external providers.

Opportunity D

People - Engage further with the profession. Senior team members are involved in both regional and CIPFA networking groups.

Suggestion: There is an opportunity to get further involved in Chartered Institute (and other professional body) activities, such as via the Head of Internal Audit forum, the Data Analytics Working Group and the Local Authority Virtual Forum). This can help ensure the introduction of fresh ideas and perspectives to team working practices, as well as aiding individual learning, development and providing cost-effective CPE. There is also an opportunity for members of the management team to become Chartered internal

auditors through the Chartered by Experience (CBE) or Chartered by Learning (CBL) processes.

Opportunity D

Planning – delivering more foresight and insight.

Suggestion: Internal audit teams need to be conducting regular horizon-scanning to ensure that new and emerging risks are considered and incorporated in their assurance and consulting work to maximise the opportunity for added value and foresight. The best internal audit teams regularly deliver insight – joining up the dots, communicating new insights, themes and root causes of recurring problems, leading to greater impact and added value. The CAE should consider how best to build in the need for foresight and delivering greater insight in both their planning and audit engagement methodology.

Many internal audit teams are increasingly delivering explicit engagements looking at organisational culture, ethics and values. The IPPF and PSIAS encourage this in Performance Standard 2110.A1, Governance, and the team have undertaken some work in these areas. The CAE could consider how best to more formally incorporate relevant aspects of auditing culture, ethics and values in their methodology, as well as in their future periodic plans.

Opportunity E

Planning - relevant assurance. Increasingly, internal audit teams are moving away from formal annual plans, to a more agile six-monthly or quarterly approach given the volatility in the external environment, organisational change and emerging risks.

Suggestion: We believe that this helps ensure that new business teams, innovative or revised services, emerging areas of risk and changing governance, strategies and delivery models are adequately covered in these periodic internal audit plans. This would help ensure the team remain insightful, proactive, and future-focused, providing professional assurance over new and emerging areas of organisational risk.

Opportunity F

Planning - finalising the team's data analytics strategy and developing an associated IT audit strategy could provide further focus and impetus for enhancing data analytics and IT audit capability.

Suggestion: The team have developed a short, focused data analytics strategy with SMART objectives, target dates and owners covering the next two or three years. This should be reviewed, finalised and actions implemented to enhance capability.

A road map or strategy of this nature could usefully be developed for IT audit activity too, if a decision is made to enhance in-house capability in this area. This could lead to enhanced depth and breadth of assurances provided to senior management and the Audit and Governance Committee in an area that is only going to become more relevant to the Council.

Opportunity G

Process - become more agile. The CAE is keen to ensure enhanced delivery to time, cost and quality targets to ensure that the periodic plan is delivered and there is sufficient breadth of work to enable an evidence-based annual opinion each year.

Suggestion: Potential solutions may include employing a more agile 'site audit' approach and mindset on some engagements, deploying task-based teams on specific engagements (rather than solo personnel), closer engagement with the audit client to ensure availability for short duration intense engagements, or planning and booking all relevant engagement meetings in advance to increase pace and efficiency.

Opportunity H

Performance - aim to be trusted advisers by embedding the business partner approach and then delivering added value.

Suggestion: The three Lead Auditors have each been allocated responsibility to become the key point of contact between the team and a Directorate. This should deliver mutual benefits and enhance relations, understanding and enable the delivery of more relevant assurance and consulting engagements. The CAE must ensure that sufficient time is allocated to relationship development activity, and Lead Auditors must look for opportunities to deliver timely consultancy and advice, that can then ease the way for future assurance engagements.

Opportunity I

Performance - consider how best to improve and report on the team's KPIs. The CAE maintains and reports on a small number of traditional KPIs as part of his quality assurance and improvement programme (QAIP).

Suggestion: The CAE should consider how best to introduce more quality, client and outcome-focused KPIs in a more balanced scorecard-type approach to performance reporting. Furthermore, enhanced reporting of consultancy engagements to the Audit and Governance Committee will help raise awareness of the value of the other internal audit work that the team undertake.

Opportunity J

Performance - celebrate success by communicating the team's results more effectively to key stakeholders.

Suggestion: We believe that the CAE could usefully consider how best to celebrate the team's successes more effectively to its key stakeholders. Many internal audit teams are not as confident, direct or as clear about this as they should be. Consider how best to do this with the Audit and Governance Committee and to wider management across the Council and in the other two organisations that the team deliver services too.

Opportunity K

Performance - establish a learning culture to further motivate the team to develop, improve and deliver the best possible service and aid in recruitment and retention.

Suggestion: Encouraging a real focus on individual, team and service learning, development and innovation can be very motivational. It is one way in which team members will be encouraged to stay, one way in which new recruits can be attracted to join and one way in which the internal audit team can ensure that they remain fresh and focused on current and emerging aspects of governance, risk and control.

We have used the following rating scale in this report:

Overall Audit Grading

Generally Conforms (GC)	<p>The assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.</p>
Partially Conforms (PC)	<p>The assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.</p>
Does Not Conform (DNC)	<p>The assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.</p>

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating.

Stakeholder Interviews

We interviewed the following individuals as part of the review. We also sent stakeholder surveys to 44 managers. We received 20 completed survey responses, a slightly disappointing response rate, although we appreciate how busy key stakeholders are across the three organisations. We have shared the anonymised survey results with the CAE.

Stakeholders	Title / position
Andrew Balchin	Chief Executive
Glynn Humphries	Corporate Director for Communities, Environment, and Climate Change
Gillian Marshall	Chief Legal Officer
Jacque Speight	Chair of the Audit and Governance Committee
Neil Warren	Chief Finance Officer
Nicola Wright	External Auditor, Deloitte

Internal Audit team	Title / position
Rob Blair	Corporate Counter-Fraud Manager
Jason Brook	Service Manager - Internal Audit and Risk
Julie Cousins	Principal Audit Manager
Bradley Frost	Corporate Risk Manager
Samuel Oladele	Lead Auditor
Lewis Reid	Senior Auditor
Andrew Shipley	Career Grade Internal Auditor
Eileen Smith	Lead Auditor
Thomas Smith	Data Analyst

Acknowledgement

We would like to thank the Internal Audit team for their time, assistance and support during this review and all those who took part in the review for their co-operation together with their open and honest views.

Feedback from stakeholder interviews and surveys

Working with the business

“I have always found internal audit colleagues to be flexible and respectful of our time and pressures, and really focussed on getting the best outcomes for us as a service from their audit work. I value their insight and input into our work.” Stakeholder Survey feedback.

“Audit leadership come across as very knowledgeable and professional.” Stakeholder interview.

“The team is responsive, professional and very easy to work with, taking time to identify needs and appropriate outcomes.” Stakeholder Survey feedback.

“People take internal audit seriously.” Stakeholder interview.

“Recent changes in personnel mean that some service area specialism (understanding of legislation, national guidance, processes etc.) which had been built up have been lost. This does not impact on the outcomes of the audit process, but has meant that additional time and resource in explaining acronyms, and other technical information, has been required.” Stakeholder Survey feedback.

“I have worked for Wakefield Council for less than twelve months, but in that time have been impressed by the interface between IA and the service; it is a more constructive relationship than I have experienced in other places.” Stakeholder Survey feedback.

Communication

“Reports are clear and thorough.” Stakeholder interview.

“Verbal and written communications are strong.” Stakeholder interview.

“They are good at reporting – their work is clear, jargon-free and accessible.” Stakeholder interview.

“Ongoing engagement through my Departmental Management Team will ensure appropriate areas for review are kept under consideration, and a positive audit relationship is maintained with the senior management team.” Stakeholder Survey feedback.

“I read all of the audit reports that come to me and I find that the reports are clear and proportionate.” Stakeholder interview.

Internal audit plans and coverage

“The plan is properly risk-based and I feel properly involved in the discussions.” Stakeholder interview.

“Good audit planning and engagement.” Stakeholder Survey feedback.

“I feel properly engaged in the internal audit planning process and felt it quite consultative.” Stakeholder interview.

“The team are extremely professional, however, due to staff vacancies have not always been able to deliver all engagements. With a full complement of staff, the working relationship with my service and the internal audit team would improve.” Stakeholder Survey feedback.

Value

“Internal audit is now perceived as more relevant and valued by members and senior management.” Stakeholder interview.

“A key strength is understanding YPO’s challenges and adapting the audits to suit,” Stakeholder Survey feedback.

“Internal audit is one of the first teams I would turn to if I needed assistance or when I have a problem.” Stakeholder interview.

“The internal audit team is strong at understanding key governance areas where the controls are extensively tested; a potential area for improvement would be to develop a better understanding of our commercial operations which differ a lot from that of a Council.” Stakeholder Survey feedback.

“The service has done a good job of understanding priorities and is a well-regarded service.” Stakeholder interview.

“Sometimes recommendations don’t always capture the impact as a result of national issues. I think it’s good that they identify risk, but this needs context.” Stakeholder Survey feedback.

Disclaimer: John Chesshire undertook this review in May and June 2022 on behalf of the Chartered Institute of Internal Auditors. This report provides management and the Audit Committee at Wakefield Council, West Yorkshire Joint Services and Yorkshire Purchasing Organisation with information about Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

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