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Date 11 May 2017

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Typetalk calls welcome

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

Dear Member

**YPO AUDIT SUB-COMMITTEE – FRIDAY, 19 MAY 2017**

It is with pleasure that I write to invite you to attend a meeting of the YPO Joint Committee Audit and Scrutiny Sub-Committee which is to be held at **10:30 am on Friday, 19 May 2017 in the YPO Headquarters** to consider the items set out in the agenda attached.

Yours sincerely



Andrew Wallhead  
Acting 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, 19 May 2017

## AGENDA

1. Chairman's Introduction and Welcome.
2. Acceptance of Apologies for Absence.
3. Members' Declaration of Interest.
4. To note any items which the Chairman has agreed to add to the agenda on the grounds of urgency.
5. To approve as a correct record, the minutes of the Audit Sub-Committee meeting held on 10th February 2017. (Pages 1 - 4)
6. To approve as a correct record, the notes of the Scrutiny Sub-Committee meeting held on 10th February 2017. (Pages 5 - 8)
7. External Audit Report (A). (Pages 9 - 40)
8. Audited Statement of Accounts (A). (Pages 41 - 80)
9. Governance Review (A). (Pages 81 - 82)
10. Internal Audit Progress (A). (Pages 83 - 90)
11. Lead Authority SLA Costs (A). (Pages 91 - 95)
12. Proposed Audit & Scrutiny Sub Committee Work Programme & Terms of Reference (A/S). (Pages 97 - 111)
13. Exclusion of the Public and Press.

In relation to reports containing exempt information to consider and, if approved, pass the following resolution:

*"That the public and press be excluded from the meeting during consideration of agenda 14 - 15 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended."*

## IN PRIVATE

14. IT Programme Update (S). (Pages 113 - 121)
15. Rebate Income Delivery Plan (S). (Pages 123 - 126)

A13776

**YORKSHIRE PURCHASING ORGANISATION AUDIT SUB-COMMITTEE**

**Friday 10<sup>th</sup> February 2017**

**Present:**     The Chair: Councillor Trotter (North Yorkshire CC)

Councillors: Mather (Kirklees MBC), Pillai (Calderdale MBC)  
 Observing: Walker (Wigan MBC), Warburton (Bradford MDC) and  
 Barnard (Barnsley MBC)

<b>1.</b>	<b>ELECTION OF CHAIR</b>
	<p>The Monitoring Officer requested nominations to the position of Chair for the Audit Sub Committee. A nomination was received and seconded on behalf of Councillor Trotter (North Yorkshire CC).</p> <p><b>Resolved</b> – (1) That Councillor Trotter of North Yorkshire CC be elected as Chair of the Audit Sub Committee.</p>
<b>2.</b>	<b>CHAIR'S INTRODUCTION &amp; WELCOME</b>
	Councillor Trotter welcomed all parties to the meeting.
<b>3.</b>	<b>ACCEPTANCE OF APOLOGIES FOR ABSENCE</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Dagger (Wakefield MDC).
<b>4.</b>	<b>MINUTES</b>
	There were no meeting minutes to review as the previous meeting was not quorate.
<b>5.</b>	<b>URGENT ITEMS</b>
	No urgent items were discussed.
<b>6.</b>	<b>COMMITTEE STRUCTURE</b>
	<p>Consideration was given to a report provided by the Managing Director.</p> <p>Members debated the options available in relation to the quorum of the Sub-Committees.</p> <p>Concerns were noted regarding the lack of attendance from Members.</p> <p>Members considered the implications of the report of the Managing Director and discussed recommending the combination of the sub-committees.</p> <p>Members agreed that many authorities do run their Audit Committees alongside other Committees and the Monitoring Officer advised that the agenda of the newly constituted Sub-Committee could include all the agenda items of the current Sub-Committees.</p>

	<p><b>Resolved</b> - (1) That the Managing Director prepare a report for the Management Committee explaining that the Members' recommendation was to recommend that the Audit Sub and Scrutiny Sub Committee are combined, and be made up of ten members, with a quorum of four Members and meetings to be held a minimum of four times per year in future.</p> <p>(2) That the Standing Orders are amended so that Members can cover each others' meeting commitments at YPO.</p> <p>(3) That a sentence is added to the front of the agenda packs highlighting that if a Member is unable to attend, could they please send an alternate to represent.</p> <p>(4) That the Committee Services Manager asks Members if they can send a substitute member when they give their apologies.</p> <p>(5) That a letter be sent to the Leader of all authorities by the Managing Director reminding them of the importance of committee meeting attendance.</p>
<b>6.</b>	<b>ANNUAL GOVERNANCE STATEMENT</b>
	<p>Consideration was given to a report of the Executive Director which provided Members with the details of the Annual Governance Statement.</p> <p>The Managing Director provided Members with further detail in relation to the assessment scoring for the Board Assurance Statement 2016.</p> <p><b>Resolved</b> - (1) That the Annual Governance Statement be approved.</p>
<b>7.</b>	<b>EXTERNAL AUDIT PLAN</b>
	<p>Consideration was given to the KPMG External Audit Plan. Members raised a number of questions with KPMG and Officers and were satisfied with the responses.</p> <p><b>Resolved</b> – (1) That the External Audit Plan be noted.</p>
<b>8.</b>	<b>PRE AUDIT STATEMENT OF ACCOUNTS</b>
	<p>Consideration was given to the report of the Head of Finance which provided Members with the details of the Pre-Audit Statement of Accounts 2016, attached as Appendix 1 and to inform Members of the public notice of the commencement of the audit and public inspection period.</p> <p>The report will be submitted to the next meeting of the YPO Management Committee for the information to be noted by members.</p> <p><b>Resolved</b> – (1) That the Pre Audit Statement of Accounts 2016 are agreed to be submitted to External Audit and the public inspection notice to be issued.</p>
<b>9.</b>	<b>INTERNAL AUDIT ANNUAL REPORT 2016</b>
	<p>Consideration was given to the report of the Section 151 Officer which presented the draft Annual Audit Report (see attached Appendix A) for 2016, in line with</p>

	<p>the requirements of the Internal Audit Protocol and the Public Sector Internal Audit Standards (PSIAS).</p> <p>An Internal Audit Progress report covering work undertaken between November 2016 and January 2017 (see attached Appendix B).</p> <p>To receive the following Internal Audit Opinion (extract from YPO Annual Governance Statement [AGS] 2015):</p> <p>“From the work undertaken by Internal Audit during 2016, key controls were found to be adequate to manage associated risks to the required level, with no significant errors, losses or omissions identified. Senior Management has continued to strengthen overall governance arrangements throughout the year, including implementing audit recommendations to improve any areas of control weakness identified from individual Internal Audit reviews. Consequently there are no new key control improvements arising from Internal Audit work that require inclusion in Section 5 of the 2016 AGS.”</p> <p><b>Resolved</b> – (1) That the Annual Audit report, as detailed in Appendix A, be recommended to the Management Committee for formal acceptance.</p> <p>(2) That the Internal Audit Progress report, as detailed in Appendix B, be endorsed.</p>
<b>10.</b>	<b>INTERNAL AUDIT PLAN 2017</b>
	<p>Consideration was given to the report of the S151 Officer which provided Members with the Draft Internal Audit Plan 2017.</p> <p>The Plan will be submitted to the next meeting of the YPO Management Committee for formal approval in line with agreed protocols.</p> <p><b>Resolved</b> – (1) That the draft Annual Audit Plan 2017 be noted.</p> <p>(2) That the draft Annual Audit Plan 2017 be submitted to YPO Management Committee for formal approval.</p> <p>(3) That a benchmarking table on Internal Audit costs be provided to Members at the next Audit Sub Committee.</p>
<b>11.</b>	<b>EXCLUSION OF THE PUBLIC &amp; PRESS</b>
	<p><b>Resolved</b> – That the public and press be excluded from the meeting during consideration of agenda items 14 and 15 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p>
<b>12.</b>	<b>IT PROGRAMME UPDATE</b>
	<p>Consideration was given to the report of the Head of Business Change &amp; IT which provided Members with an update on the current project dossier.</p>

	<p>The report summarised the major risks and mitigation for each project and Members were informed that the Board review the activity and progress on the IT Programme on a monthly basis at the Programme Board Meeting.</p> <p><b>Resolved</b> – (1) That the report be noted.</p>
<p><b>13.</b></p>	<p><b>INTERNAL AUDIT ACTION UPDATE</b></p>
	<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><b>Resolved</b> – (1) That the progress made in implementing internal audit actions be noted.</p>
<p><b>14.</b></p>	<p><b>DATE AND TIME OF NEXT MEETING</b></p>
	<p><b>Resolved</b> – (1) That the next meeting of the YPO Audit Sub Committee is to be confirmed following a recommendation to Management Committee in relation to the committee structure.</p>

**YORKSHIRE PURCHASING ORGANISATION SCRUTINY SUB-COMMITTEE**

**Friday 10<sup>th</sup> February 2017**

**MEETING NOT QUORATE – MINUTES FOR INFORMATION ONLY**

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

Councillors: Barnard (Barnsley MBC)

Audit Sub Committee Observers: Walker (Wigan MBC), Mather (Kirklees MBC), Pillai (Calderdale MBC) and Trotter (North Yorkshire CC).

<b>11.</b>	<b>CHAIR’S INTRODUCTION &amp; WELCOME</b>
	The Chair, Councillor Warburton, welcomed all parties to the meeting.
<b>12.</b>	<b>ACCEPTANCE OF APOLOGIES FOR ABSENCE</b>
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillor Corden (Doncaster MBC), Glover (St Helens MBC), Swift (Calderdale MBC) and Walker (Kirklees MBC).
	<b>It was noted that the meeting was not quorate however the agenda items would be reviewed by the Members in attendance.</b>
	The Monitoring Officer explained the current consultation in relation to the legislation which is being reviewed by Government around Local Government undertaking virtual meetings. This legislation is yet to be approved, however this may be something that Members wish to use in the future.
	Members noted some concerns around using this function due to the standard of the IT systems within Local Authorities.
<b>13.</b>	<b>MEMBERS’ DECLARATIONS OF INTEREST</b>
	No declarations of interest were made.
<b>14.</b>	<b>MINUTES – 21<sup>st</sup> October 2016</b>
	It was the feeling of the meeting that the minutes of the YPO Scrutiny Sub-Committee held on 21 <sup>st</sup> October 2016 were a correct record.
<b>15.</b>	<b>URGENT ITEMS</b>
	No urgent items were raised by Members.
<b>16.</b>	<b>COMMITTEE STRUCTURE</b>

	<p>Consideration was given to a report provided by the Managing Director.</p> <p>Members debated the options available in relation to the quorum issues of the Sub-Committees.</p> <p>Concerns were noted regarding the lack of attendance from Members.</p> <p>Members considered the implications of the report of the Managing Director and discussed recommending the combination of the sub-committees.</p> <p>Members agreed that many authorities do run their Audit Committees alongside other Committees and the Monitoring Officer advised that the agenda of the newly constituted Sub-Committee could include all the agenda items of the current Sub-Committees.</p> <p>Members asked that:</p> <p>(1) the Managing Director prepare a report for the Management Committee explaining the Members recommendation was to recommend that the Audit Sub and Scrutiny Sub Committee are combined, and be made up of ten members with a quorum of four Members and meetings to be held a minimum of four times per year in future.</p> <p>(2) That the Standing Orders are amended so that Members can cover each others' meeting commitments at YPO.</p> <p>(3) That a sentence is added to the front of the agenda packs highlighting that if a Member is unable to attend, could they please send an alternate to represent.</p> <p>(4) That the Committee Services Manager asks Members if they can send a substitute member when they give their apologies.</p> <p>(5) That a letter be sent to the Leader of all authorities by the Managing Director reminding them of the importance of committee meeting attendance.</p>
<p><b>17.</b></p>	<p><b>GIFTS AND HOSPITALITY</b></p>
	<p>Consideration was given to the Gifts and Hospitality report presented by the Managing Director.</p> <p>The Managing Director explained that no changes are proposed to the policy at this time.</p> <p>Members were happy with the policy and the content of the Gifts and Hospitality Register.</p> <p>Members noted the report.</p>
<p><b>18.</b></p>	<p><b>PRIVATE</b></p>

	<p>That the public and press were excluded from the meeting during consideration of agenda items 9, 10 and 11 on the grounds that they are likely to involve the disclosure of exempt information as described in Part 1 of Schedule 12A to the Local Government Act 1972, as amended.</p>
<b>19.</b>	<b>PROCUREMENT SERVICES STRATEGY</b>
	<p>Consideration was given to a report and presentation given by the Head of Procurement regarding the Procurement Services Strategy for 2017.</p> <p>The presentation explained to Members the five key strategic themes within Procurement Services for 2017.</p> <p>The Head of Procurement explained that this strategy serves as a precursor for the emerging Three Year Strategy for 2018 - 2020.</p> <p>The Managing Director outlined the work that the team are doing with our current frameworks during 2017.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted.</p> <p>Members noted the report and asked that the delivery plan for rebate income be presented at the next Scrutiny Sub Committee (in whatever form it may become).</p>
<b>20.</b>	<b>COMMERCIAL STRATEGY</b>
	<p>Consideration was given to a report and presentation given by the Executive Director regarding the Commercial Strategy 2015 – 2017.</p> <p>The Executive Director provided an update on progress over the last year and highlighted the focus areas for year three of the Commercial Strategy.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted.</p> <p>Members noted the report.</p>
<b>21.</b>	<b>STOCK LOSSES</b>
	<p>Consideration was given to a report that outlines the stock losses incurred during 2016.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted, and noted the report.</p>
	<b>DATE AND TIME OF NEXT MEETING</b>

<p>The next meeting of the YPO Scrutiny Sub Committee is to be confirmed following a recommendation to Management Committee in relation to the committee structure.</p>
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# External Audit Report 2016

Yorkshire Purchasing Organisation

—  
May 2017



# Contents

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**Report sections**

	<b>Page</b>
— Introduction	3
— Headlines	5
— Financial statements	8
— VFM Conclusion	15

**Appendices**

1. Key issues and recommendations	19
2. Audit differences	23
3. Materiality and reporting of audit differences	24
4. Declaration of independence and objectivity	25

The report is intended solely for use for internal purposes by the management of the Yorkshire Purchasing Organisation (the 'Organisation') and should not be used by or distributed to others without our prior written consent. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.



# Section one: Introduction



**This document summarises:**

- The key issues identified during our audit of the financial statements for the year ended 31 December 2016 for the Organisation; and
- Our assessment of the Organisation's arrangements to secure value for money.

**Scope of this report**

This report summarises the key findings arising from:

- Our audit work at Yorkshire Purchasing Organisation ('the Organisation') in relation to the Organisation's 2016 financial statements; and
- Our assessment of the Organisation's arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Financial statements**

Our *External Audit Plan 2016*, presented to you in October 2016, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: substantive procedures. Our on site work for this took place during January and April 2017.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

**VFM Conclusion**

Our External Audit Plan 2016 explained our risk-based approach to VFM work. We have now completed the work to support our assessment of the Organisations arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Structure of this report**

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2016 financial statements of the Organisation and the fund.
- Section 4 outlines our key findings from our work on your VFM arrangements.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

**Acknowledgements**

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.



# Section two: Headlines



This table summarises the headline messages for the Organisation. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Organisation's financial statements by 31 May 2017.
<b>Audit differences</b>	<p>Our audit has identified one unadjusted audit difference with a value of £1.6 million. The impact of this difference is to:</p> <ul style="list-style-type: none"> <li>— Understate the pension liability by £1.6 million;</li> </ul> <p>We have raised one recommendation in relation to the matters highlighted above, which are summarised in Appendix One.</p> <p>Our audit has not identified any adjusted audit differences.</p>
<b>Key financial statements audit risks</b>	<p>We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risks in our 2016 External audit plan issued in October 2016:</p> <ul style="list-style-type: none"> <li>— Management override of controls</li> <li>— Fraud in revenue recognition</li> </ul> <p>We also identified one area of audit focus in our 2016 External audit plan issued in October 2016:</p> <ul style="list-style-type: none"> <li>— Stock write-offs and obsolescence</li> </ul> <p>We have worked with officers throughout the year to discuss these key risk(s) and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>
<b>Accounts production and audit process</b>	<p>The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code which the Organisation is adopting on a voluntary basis for 2016.</p> <p>The Organisation has maintained the quality of its financial reporting process during the 2016 year end. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2017 audit process. In particularly we would like to thank Organisation's officers who were available throughout the audit visit to answer our queries.</p>



This table summarises the headline messages for the Organisation. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p><b>VFM conclusion and risk areas</b></p>	<p>We did not identify any significant VFM risks in the audit plan</p> <p>We are not required to provide a conclusion on the Organisations arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. However, on the basis of the work done, we would be able to conclude that the Organisation has made proper arrangements if we were required to do so.</p>
<p><b>Completion</b></p>	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>— Testing of sales figures</li> <li>— Final checks on the final version of the financial statements</li> <li>— Final review by the Director.</li> </ul> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We will provide a draft of this representation letter to the Managing Director in advance of the Audit Sub Committee on 19 May 2017. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us and that you have provided us with all the information to assess your obsolete stock provision.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Organisation's financial statements.</p>



# Section three: Financial Statements

# Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

We have identified one significant issue that has not been adjusted by management

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Organisation's financial statements following approval of the Statement of Accounts by the Audit Committee on 19 May 2017

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £2 million. Audit differences below £100k are not considered significant.

We did not identify any material misstatements.

We identified one significant issue that has not been adjusted by management as it does not have a material effect on the financial statements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Organisation will be addressing these where significant.

# Significant audit risks



We have worked with the Organisation throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2016*, presented to you in October 2016, we identified the significant risks affecting the Organisation's 2016 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Organisation.

## Significant Risk 1

— Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We have not identified any indications of fraudulent financial reporting but the nature of YPO's business means that we are unable to rebut this presumption.

— Findings

- We have carried out sufficient testing in the area of income to satisfy ourselves over revenue recognition. This testing includes attendance at stocktakes, testing of the bad debt provision and aged debt disclosures, and testing a sample of contract rebates to supporting evidence.

## Significant Risk 2

— Risk

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

— Findings

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

# Other areas of focus



In our External Audit Plan 2016, presented to you in October 2016, we identified one area of audit focus.

This is not considered as a significant risk but area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for the area of audit focus.

### Area of focus 1

#### — Area

YPO's stock balance at 31 December 2015 was £12.5m and the stock system drives many of the significant entries in the accounts including turnover and cost of sales. We have identified two specific risks to the existence and valuation of the stock balance:

- Items in stock but obsolete
- Items included in stock records but missing from the warehouse.

There is a risk that YPO does not have systems and processes in place to identify obsolete stock items with a value below purchase price and that require an impairment

There is a risk that YPO does not have a clear picture of the value of stock recorded on the system but not available for sale to customers

In both cases the impact on the accounts is an overstatement of the stock balances and an understatement of costs.

#### — Findings

We discussed with the finance team the process in place to identify and impair obsolete stock. The process involves discussion with the stock manager and the use of the stock reports.

We have attended the food stocktake in 2016 and walked through stock count methodology and sample tested this count process, following up the count and variances to that carried out by YPO staff. This has been fully agreed back to the system which generates the year end stock values in the financial statements.

We have carried out a number of data analytic techniques on the closing stock levels to understand the range of potential stock obsolescence that is held in the balances at 31 December 2016. The techniques included the following parameters:

- Stock items with no sales in previous 12 months
- Stock balances with more than 18 months sales (using previous years sales)
- Where items exist applying a sliding obsolescence percentage the higher the number of years sales held in stock.

Using the above analytical techniques, we have concluded that the provision that you have made is not materially misstated, is reasonable, and is in line with prior year obsolescence write offs. However the data techniques suggest that the overall provision is at the optimistic end of the reasonable range.



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	2016	2015	Balance (£m)	KPMG comment
Accrued income	3	1	£4.359 million <i>(PY: £3.609 million)</i>	The Organisation has reviewed the income actually invoiced in 2017 and accrued the values appropriately. This shows a more balanced accrued income than in 2016.
Accruals	3	3	£2.871 million <i>(PY: £1.764 million)</i>	The Organisation have made appropriate estimates of the costs that have been incurred but not charged.
Stock Obsolescence Provision	5	6	£0.223 million <i>(PY: £0.088 million)</i>	The Stock obsolescence provision provided in the statements is reasonable however there is some evidence to suggest that it is optimistic following the data analytics on the stock lines.
Land and Property	3	3	£9.2 million <i>(PY: £9.1 million)</i>	The valuation of the YPO buildings is balanced. Valuations are carried out by an independent, objective third party.
Pensions	Audit difference	4	£29.9 million <i>(PY: £16.8 million)</i>	The Actuaries estimate of the consumer price index (CPI) used to inflate the pension payments, was 2.1%, this is outside the optimistic end of the range provided by our pensions experts by 0.1%. The KPMG expert has estimated that should the CPI be increased to the optimistic end of the range then this would have the impact of increasing the liability by circa 1.4% equating to £1.6m liability understatement.

# Accounts production and audit process



Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

## Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Organisation's accounting practices and financial reporting. We also assessed the Organisation's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Organisation has maintained the quality of its financial reporting process during the 2016 year end.</p> <p>There is scope to improve this further by providing the Organisations assumptions for the pension liabilities to us earlier to enable us to make any comments on whether these assumptions are within our acceptable ranges.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts at the start of the audit.</p>
<b>Quality of supporting working papers</b>	<p>Our <i>Accounts Audit Protocol</i>, which we issued in January 2017 and discussed with the Financial Controller, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
<b>Response to audit queries</b>	<p>Officers resolved audit queries in a reasonable time.</p>

## Prior year recommendations

As part of our audit we have specifically followed up the Organisation's progress in addressing the recommendations in last years ISA 260 report.

The Organisation's updates to the recommendations in our *ISA 260 Report 2015 m*ly be found in Appendix 2.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Organisation's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Yorkshire Purchasing Organisation for the year ending 31 December 2016, we confirm that there were no relationships between KPMG LLP and Yorkshire Purchasing Organisation, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We have provided a detailed declaration in Appendix four in accordance with ISA 260.

### Audit Fees

Our fee for the audit was £23,135 plus VAT (£28,318 for 2015). This fee was in line with that highlighted within our audit plan agreed by the Audit Sub Committee in February 2016.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Managing Director for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Organisation's 2016 financial statements.



# Section four: Value for Money



Our VFM assessment considers whether the Organisation had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have assessed that the Organisation has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

### Background

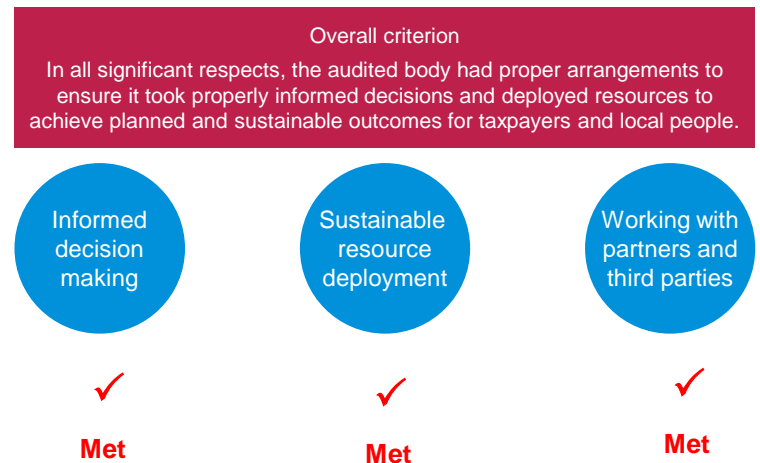
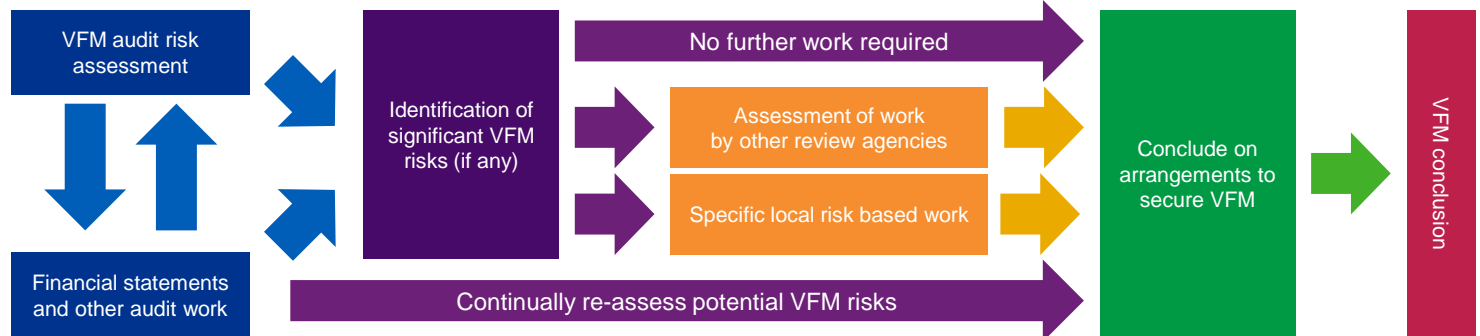
We have used the NAO Code of Audit Practice, published April 2015, to inform our assessment of YPO's value for money arrangements. This requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the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

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

### Assessment

We are not required to provide a conclusion on the Organisations arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

However, on the basis of the work done, we would be able to conclude that the Organisation has made proper arrangements if we were required to do so.



# Specific VFM Risks



We have not identified any significant VFM risks.

The Authority have identified a weakness in arrangements during the year and put in place new arrangements to address the identified weakness.

### Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Organisation’s key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Organisation, inspectorates and review agencies in relation to these risk areas

### Key findings

Below we set out the findings in respect of our VFM assessment.

We concluded that we did not need to carry out additional work for the risks as there was sufficient relevant work that had completed by the Organisation, inspectorates and review agencies in relation to these risk areas.

Key VFM finding	Assessment	Assessment
	<p>During 2016 the attendance of members at Audit Sub Committee was such that a number of meetings were not quorate in line with the terms of reference of the sub-committee.</p> <p>This issue was identified during the year by the Organisation. At the Management Committee in early 2017, a decision was been taken to combine the memberships of the Audit Sub-Committee and the Scrutiny Sub-Committee and to hold the two meetings on the same day. This provides a larger pool of members from which attendance at the sub-committees may be drawn.</p>	<p><b>Specific risk based work required: No</b></p> <p><b>Impact on VFM Assessment</b></p> <p>Poor member attendance at sub-committee meetings impacts the ability of the Organisation to make informed decisions. This is mitigated by the fact that the Management Committee has been well attended during the year and this is where key decisions are made.</p> <p><b>Recommendation:</b></p> <p>The Organisation should remind sub-committee members of the importance of attendance at all meetings.</p>



# Appendices

**Appendix 1: Key issues and recommendations**

**Appendix 2: Audit differences**

**Appendix 3: Data Analytics**

**Appendix 4: Independence and objectivity**

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Organisation should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations			
<b>1</b>	<b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b>	<b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
<b>3</b>	<b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	<b>2</b>	<p><b>Pensions Assumptions</b></p> <p>The estimate of the CPI used as the basis for the Pensions liability was outside the KPMG acceptable range of assumptions leading to an unadjusted misstatement of £1.6m.</p> <p><b>Recommendation</b></p> <p>Provide KPMG with early sight of the pension assumptions proposed by the actuary so that feedback may be provided on whether they fall within any acceptable range.</p>	<p>From the 2017 audit, onwards, we will provide KPMG with an early sight of the pension assumptions as provided by the actuary.</p> <p><b>Responsible Officer</b> Matthew Hirst <b>Due date:</b> 31 January 2018</p>
2	<b>2</b>	<p><b>Audit sub-committee member attendance</b></p> <p>The Organisation has recognised that there is an issue with the quoracy of its sub-committees and updated its arrangements so that the audit sub-committee and the scrutiny sub-committee are on the same day with the same expanded membership for each.</p> <p><b>Recommendation</b></p> <p>Remind sub-committee members of the importance of attendance at all meetings (or arranging a substitute where this is not possible.)</p>	<p>This issue has been addressed and in future, a combined Audit and Scrutiny Committee will meet. The first meeting is on 19th May 2017.</p> <p><b>Completed</b></p>

## Appendix one

# Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Organisation should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	3	<p><b>Stock obsolescence provision</b></p> <p>The stock obsolescence provision provided in the statements is reasonable however there is some evidence to suggest that it is optimistic following the data analytics on the stock lines.</p> <p><b>Recommendation</b></p> <p>Review the robustness of the process for calculating the stock obsolescence provision and consider using aged stock reports to calculate the provision based on a sliding scale.</p>	<p>From the 2017 audit, onwards, we will review the robustness of the calculation of the provision for obsolete stock and use aged stock reports.</p> <p><b>Responsible Officer</b> Matthew Hirst  <b>Due date:</b> 31 January 2018</p>

## Appendix one

# Follow up of prior year recommendations

The Organisation has provided an update on the recommendations in our ISA 260 Report 2015.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2015 and re-iterates any recommendations still outstanding.

### Number of recommendations that were:

Included in original report	2
Implemented in year or superseded	0
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 April 2017
1	3	<p>In understanding the IT control environment we have reviewed the Use of Electronic Equipment policy. Although it is in place, it is overdue for renewal.</p> <p><b>Recommendation</b></p> <p>Carry out a review of the existing policy alongside the current reviews of other IT policies within YPO.</p>	<p><b>Responsible Officer</b></p> <p>Kevin Field</p> <p><b>Revised Due Date</b></p> <p>31 Dec 2017</p>	<p>IT and HR are currently reviewing the policy, which is expected to be re-issued during 2017.</p>

# Follow up of prior year recommendations

The Organisation has implemented all of the recommendations in our ISA 260 Report 2015.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 April 2017
2	3	<p>No user access reviews are currently performed by staff for Navision or for Dawn/ISYS. User access reviews allow staff to verify the appropriateness of an employee's systems access rights in comparison to their job role and enables discrepancies to be identified.</p> <p>During our audit, we tested a sample of 5 users on Navision to assess whether access rights appeared appropriate in relation to job role. As a result of this testing, we identified two instances where staff in the Finance Department had been granted an access permission on Navision that Management were unaware of (the right to post journals). Although we confirmed that these staff had not used their access right in 2012, our testing nonetheless highlighted the importance of user access reviews for monitoring purposes.</p> <p><b>Recommendation</b></p> <p>Introduce user access reviews for Navision, Dawn and ISYS. These reviews should be performed on at least an annual basis.</p>	<p><b>Responsible Officer</b></p> <p>Matthew Hirst Kevin Field</p> <p><b>Revised Due Date</b></p> <p>31 December 2017</p>	<p>The review of access to Navision is still in place and the permissions matrix is reviewed every six months.</p> <p>Access to Dawn / I-sys will be incorporated into the ongoing security review and will be an annual check and control procedure from December 2017. Overall access permissions will also be assessed as part of the Link project and the implementation of Navision as our E.R.P.</p>

# Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 December 2016.

We are reporting all audit differences over £100k.

The cumulative impact of uncorrected audit differences is £1.6million

This is below our materiality level of £2 million.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit sub-committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

There are no corrected audit differences to report

### Uncorrected audit differences

The following table sets out the uncorrected audit differences identified by our audit of Yorkshire Purchasing Organisation's financial statements for the year ended 31 December 2016.

No.	Income and expenditure statement	Movement in reserves statement	Impact		Basis of audit difference
			Liabilities	Reserves	
1	Dr Account £1.6million	Cr Account £1.6million			Actuarial losses on pension liability
2				No impact	General Fund reserve
3			Cr Account £1.6million		Pensions liability
4				Dr Account £1.6m	Earmarked pensions reserve
	<b>Dr £1.6million</b>	<b>Cr £1.6million</b>	<b>Cr £1.6million</b>	<b>Dr £1.6million</b>	<b>Total impact of uncorrected audit differences</b>

# Materiality and reporting of audit differences

For 2016 our materiality is £2 million for the Organisation's accounts.

We have reported all audit differences over £100,000 for the Organisation's accounts.

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016, presented to you in October 2016.

Materiality for the Organisation's accounts was set at £2 million which equates to around 1.7% of gross turnover. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit Sub Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Sub Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Organisation, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £100,000 for the Organisation.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Sub Committee to assist it in fulfilling its governance responsibilities.

# Declaration of independence and objectivity

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Organisation's financial statements.**

Appointed auditors are required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Sub Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

## **General procedures to safeguard independence and objectivity**

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

## **Auditor declaration**

In relation to the audit of the financial statements of the Yorkshire Purchasing Organisations for the financial year ending 31 December 2016, we confirm that there were no relationships between KPMG LLP and the Yorkshire Purchasing Organisation, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff.



[kpmg.com/uk](https://kpmg.com/uk)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Rashpal Khangura  
KPMG LLP  
1 Sovereign Square,  
Sovereign Street,  
Leeds,  
LS1 4DA

19 May 2017

Dear Rashpal,

This representation letter is provided in connection with your audit of the financial statements of the Yorkshire Purchasing Organisation (“the Organisation”), for the year ended 31 December 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Organisation as at 31 December 2016 and of the Organisation’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

The Organisation confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Organisation confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### Financial statements

1. The Organisation has fulfilled its responsibilities for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Organisation as at 31 December 2016 and of the Organisation’s expenditure and income for the year then ended; and
  - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Organisation in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. Our audit has identified one unadjusted misstatement: the pension liability is understated by £1.6 million.

### Information provided

5. The Organisation has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Organisation for the purpose of the audit; and
  - unrestricted access to persons within the Organisation from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Organisation confirms the following:
  - i) The Organisation has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Organisation has disclosed to you all information in relation to:
  - a) Fraud or suspected fraud that it is aware of and that affects the Organisation and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Organisation's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Organisation acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Organisation acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Organisation has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Organisation has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Organisation has disclosed to you the identity of the Organisation's related parties and all the related party relationships and transactions of which it is aware. All related party relationships

and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Organisation confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Organisation's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Organisation to continue as a going concern.

12. On the basis of the process established by the Organisation and having made appropriate enquiries, the Organisation is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Organisation further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
  - statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Organisation confirms that it has provided to you all relevant information required to assess the Organisations provision for obsolete stock.

This letter was tabled and agreed at the meeting of the Audit Committee on 19 May 2017

Yours sincerely,

[Chair of the Audit Sub Committee]

[Executive Director]

[Assistant Chief Executive, Resources & Governance of the Serving Authority, Wakefield MDC]

## Appendix to the Organisation Representation Letter of the Yorkshire Purchasing Organisation : Definitions

### **Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

As a Joint Committee, the Organisation is no longer required to comply with the Accounts and Audit regulations 2015. However, it has been agreed that the Organisation will continue to produce a statement of accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

### **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

### Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

### Related Party and Related Party Transaction

#### Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in the context of the Organisation are the Managing Director, Board and other persons having the authority and responsibility for planning, directing and controlling the activities of the Organisation, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Better value, delivered.



**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

	<p style="text-align: center;"><b>YPO</b></p> <p style="text-align: center;"><b>AUDIT &amp; SCRUITNY SUB COMMITTEE</b></p> <p style="text-align: center;"><b>TO BE HELD ON</b></p> <p style="text-align: center;"><b>19<sup>TH</sup> MAY 2017</b></p>
---	---

**TITLE: AUDITED STATEMENT OF ACCOUNTS 2016**

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

---

**1 PURPOSE OF REPORT**

1.1 To present the Audited Statement of Accounts for 2016.

**2 SUMMARY**

2.1 The Statement of Accounts 2016 has been externally audited and the auditors anticipate an unqualified opinion.

**3 BACKGROUND**

3.1 In accordance with the Accounts and Audit Regulations, 2015 and taking into account 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.

3.2 The pre-audit Statement of Accounts 2016 was approved for external audit at the Audit Sub Committee on 10<sup>th</sup> February 2017.

3.3 The external audit commenced on site from the 20<sup>th</sup> March 2017 until 31<sup>st</sup> March 2017. All follow up questions and issues raised were concluded on the 19<sup>th</sup> April 2017.

3.4 All recommendations from the auditors were considered and the accounts amended where appropriate.

3.5 A full list of all audit differences and control weaknesses identified are contained within the External Audit report.

3.6 A full schedule of all amendments made to the pre-audit Statement of Accounts to the audited Statement of Accounts is included as appendix 1 to this report.

**4 RECOMMENDATION**

4.1 That the audited Statement of Accounts for 2016 be approved on behalf of the Management Committee for publication.

**5 WHAT DOES THIS MEAN FOR YPO STAKEHOLDERS?**

5.1 An unqualified audit opinion will give stakeholders 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. The financial position suggests a solid financial base and that YPO is a going concern.

**7. FINANCIAL IMPLICATIONS**

7.1 The audit fee is £23k and that amount has been included in the budget for 2017.

**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.

**APPENDIX:**

*Appendix 1 – Adjustments made to the pre-audit Statement of Accounts.*

*Appendix 2 – Audited Statement of Accounts 2016.*

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

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WF2 0XE

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**APPENDIX 1**

**2016 Statement of Accounts version tracker**

The below table records all changes made to the 2016 Statement of Accounts from the original submission to February’s Audit Sub-committee to the audited version to be submitted to April’s Audit & Scrutiny Sub-committee.

All adjustments below have been made following a final review by the finance team and after discussions with our external auditors. All changes made have no effect on the net profit for the year and do not impact the net assets position within the balance sheet.

<b>Issue</b>	<b>Original version</b>	<b>Final Audited version</b>
Narrative Statement: Accountability and Financial Reporting (Page 3).		Point 2 now includes a statement concerning the categorisation of our reserves into “Usable” and “Unusable”, the statement explains that this is purely for presentational needs and the organisation no longer holds any powers attributed to this classification.
Note 9: Inventories (Page 23)		The closing inventory balances have been reformatted to split out the physical closing inventory and any accounting provisions made. This enables the total provisions included within the net value of stock to be reconciled to any working papers.

**YORKSHIRE PURCHASING ORGANISATION**



**AUDITED  
STATEMENT  
OF ACCOUNTS  
2016**

41 Industrial Park • Wakefield • WF2 0XE

# 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 2016. The foreword and financial summary 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 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 fifty three associate member authorities of YPO, 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
Walsall Council	2015
Tameside Council	2015
Lancaster City Council	2015
Cheshire Fire and Rescue Service	2016
Coventry City Council	2016
Craven District Council	2016
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

## Narrative Statement by the Managing Director

Salford City Council	2016
Sefton Borough Council	2016
Solihull Metropolitan Borough Council	2016
Wyre Council	2016

Certain services, including legal, treasury and internal audit, are provided by 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 C.I.P.F.A Code of Practice that is subject to an external audit. Consequently, 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 C.I.P.F.A 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:

#### Core Statements

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

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

The Balance Sheet shows the value as at the 31st of December 2016 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 Assistant Chief Executive, Resources & Governance at WMDC 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.

## Narrative Statement by the Managing Director

### 4. FINANCIAL SUMMARY

The 2016 budget approved in November 2015 was for a turnover of £125m and a surplus of £9.2m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

Invoiced sales for the year are £113.9m and the reported surplus on trading of £7.4m is under the budget set of £9.2m by £1.8m, this excludes any income for pensions interest or expenditure financed from earmarked reserves.

Turnover targets for the year included growth aspirations which haven't fully materialised. However, the ability to meet these targets have also been impacted by adverse market conditions, particularly within the early years, primary and secondary education sectors. With overall spending across these areas reducing by around 6% in the year the organisation's focus shifted to one of customer retention with elements of exploring new opportunities. Therefore whilst an adverse variance in sales of £11.1m may seem worrying it is important to appreciate that maintaining, and in some sectors increasing, market share is equally as significant.

Income from stock and framework contracts at £4.3m were under the budget of £4.8m, mainly due to emergency services and energy framework contributions being lower than expected.

During 2016 we have benefited from additional catalogue contribution income of £0.641m. This was due to the invoices raised in regards to the 2016 catalogue being significantly greater than that forecasted at 31st December 2015.

Operating costs for 2016 were £30m, £0.280m over budget. The main contribution for the adverse variance was an overspend across promotional activity and IT software costs. These overspends were partially offset through savings in distribution costs which were a result of the downturn in turnover and orders fulfilled.

In 2016 £1.112m of expenditure was funded through the internal earmarked reserve funds. This was planned expenditure approved at the November 2015 Management Committee. The initial funding of this was through the surplus made in 2015.

Trade debtors are at £8.0m, £0.2m less than in 2015. An aged debt analysis shows that debts older than 12 months have dropped from £0.143m in 2015 to £0.061m in 2016.

The net assets of the organisation as at 31st December 2016 are £11.2m, significantly less than £26.8m in last years accounts. Whilst cash balances of £14m and the general fund balance of £28.8m remain healthy and available to fund future growth and capital investment requests, the reduction in value is due to an increase in the pension liability of £13m, details of which are noted below.

Cash flow movement in the year has reduced the cash at bank balances by £3m. This reflects the operating performance of the organisation in the year and reconciles to the in-year profits, dividends paid, and movements in debtors and creditors as per the cash flow statement. There has been minimal capital expenditure in the year and no other extraordinary movement in cash. It is also expected that future cash flows will only be effected by the day to day operations of the organisation.

During the year £0.006m was spent on capital items. These related to additional costs incurred during the integration of the access control system.

An agreed dividend distribution of £9.230m for the trading year 2015 was distributed in September 2016. This distribution, as last year, included all customers.

No acquisitions or discontinuation of operations were made during 2016.

## Narrative Statement by the Managing Director

### **5. RETIREMENT BENEFITS**

The value of the organisation's retirement benefits liability as at 31 December 2016 was £29.9 million (31 December 2015 £16.8 million). This increase in liability is attributable to actuarial losses due to changes in the financial assumptions. Increases in rates of inflation, pension and salary costs all contribute to this. These assumptions are detailed in note 7.

The employer's contribution rate was 12.1% for Jan to Mar 2016 and 11.9% from April.  
(see note 7 to Core Financial Statements - Retirement Benefits)

International Accounting Standard (IAS) 19 - Employee Benefits which covers pension accounting was revised in 2011 and applies to the Organisation's statements from 2014 onwards.

The actuaries (Aon Hewitt) issued the results of the March 2013 triennial valuation for the pension scheme in January 2014 which sets out the employer's contribution from April 2014 to April 2017 at the following contribution rates 2014/15 - 12.3%, 2015/16 - 12.1% and 2016/17 11.9%.

### **6. SIGNIFICANT MATTERS**

The budget submission for the 2016 financial year was given approval by the Management Committee at the meeting in November 2015. The budget was built on assumptions of growth in core business keeping the Operating Costs to Sales ratio at 22.9% which has gone up to 25.4% in 2016's performance.

A dividend distribution of £9.230m declared in respect of the 2015 trading year, was distributed in September 2016 which reflected the increased performance during 2015. This included a non cash loyalty bonus of £2.1m payable to individual customers by way of a voucher to be used against future purchases of product.

YPO Procurement Holdings and its subsidiary YPO Supplies Ltd began trading with YPO Joint Committee in 2014. Board members for YPO Procurement Holdings and YPO Supplies are also members of the Joint Committee board and therefore all transactions in 2016 between the above companies are classed as related party transactions.

### **7. MEDIUM TERM FINANCIAL STRATEGIES**

The 2017 budget was approved by the Committee in November 2016 as the final year of our three year strategy. This current strategy originally focused on continuous growth through developing new markets and offerings. However, the impact of external factors has re-focused the plan for 2017 to ensure that customer retention is also a main focal point along with introducing a process for performance management and efficiency generation. A medium term financial strategy has also been drawn up alongside the 2017 budget, this assesses the implications today's actions will have over the next 2-5 years and what impact it will have on future profits and financial position.

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 Assistant Chief Executive, Resources & Governance of the Serving Authority, Wakefield MDC. Day to day financial management is the responsibility of the Managing Director 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 ASSISTANT CHIEF EXECUTIVE, RESOURCES & GOVERNANCE

The Assistant Chief Executive, Resources & Governance 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 Assistant Chief Executive, Resources & Governance 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 Assistant Chief Executive, Resources & Governance has also:

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

## THE ASSISTANT CHIEF EXECUTIVE, RESOURCES & GOVERNANCE

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 2016 and its Income and Expenditure for the year then ended.

.....

**MICHAEL CLEMENTS**  
Assistant Chief Executive, Resources & Governance

## APPROVAL OF THE ACCOUNTS

As the Chair of the body considering the Yorkshire Purchasing Organisation's Statement of Accounts for 2016, I certify that the Accounts have been approved by the Management Committee and are authorised for issue.

.....

**Cllr LES SHAW**  
Chairman YPO Management Committee

# Auditors Opinion



## 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 Statement. 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.

2015	£000's											
	Usable Reserves			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	Total Usable reserves	Total Unusable reserves	Total Reserves		
Balance as at 31 December 2014	29,507	85	1,830	11,263	(18,652)	(69)	62	31,422	(7,396)	24,025		
<b>Movement in Reserves during 2015</b>												
Surplus or (Deficit) on Operations	(701)							(701)	0	(701)		
Other Comprehensive Income					3,500		(60)	0	3,440	3,440		
<b>Total Comprehensive Expenditure and Income</b>	(701)	0	0	0	3,500	0	(60)	(701)	3,440	2,739		
Adjustments between accounting basis and funding basis under regulation												
<b>Net Increase / (Decrease) before transfer to Earmarked Reserves</b>	(701)	0	0	0	3,500	0	(60)	(701)	3,440	2,739		
Transfer (to) / from Earmarked Reserves	1,496		473	(249)	(1,675)	(44)	(1)	1,969	(1,969)	0		
<b>Increase / (Decrease) in Movement in Year</b>	795	0	473	(249)	1,825	(44)	(62)	1,268	1,471	2,739		
Balance as at 31 December 2015	30,302	85	2,303	11,014	(16,827)	(113)	0	32,690	(5,925)	26,765	13	

2016	£000's											
	Usable Reserves			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	Total Usable reserves	Total Unusable reserves	Total Reserves		
Balance as at 31 December 2015	30,302	85	2,303	11,014	(16,827)	(113)	0	32,690	(5,925)	26,765		
<b>Movement in Reserves during 2016</b>												
Surplus or (Deficit) on Operations	(4,039)							(4,039)	0	(4,039)		
Other Comprehensive Income					(11,513)		0	0	(11,513)	(11,513)		
<b>Total Comprehensive Expenditure and Income</b>	(4,039)	0	0	0	(11,513)	0	0	(4,039)	(11,513)	(15,552)		
Adjustments between accounting basis and funding basis under regulation												
<b>Net Increase / (Decrease) before transfer to Earmarked Reserves</b>	(4,039)	0	0	0	(11,513)	0	0	(4,039)	(11,513)	(15,552)		
Transfer (to) / from Earmarked Reserves	2,555		(533)	(469)	(1,555)	1	0	2,023	(2,023)	(0)		
<b>Increase / (Decrease) in Movement in Year</b>	(1,484)	0	(533)	(469)	(13,068)	1	0	(2,017)	(13,536)	(15,553)		
Balance as at 31 December 2016	28,818	85	1,770	10,545	(29,895)	(111)	0	30,673	(19,462)	11,213		

# Comprehensive Income and Expenditure Account

2015	2016
<u>£'000</u>	<u>£'000</u> <u>Note</u>
117,404 <i>Invoiced Turnover</i>	113,904 1(b),6
<u>(86,673) <i>Cost of Sales</i></u>	<u>(83,926)</u>
30,731 <i>Gross Margin</i>	29,978
199 Discounts	142
4,902 Rebates	4,335 1(b),6
2,310 Other Income	2,905 1(b),6
<u>38,142 <i>Gross Surplus</i></u>	<u>37,361</u>
<i>Operating Expenses</i>	
(16,766) Employees	(17,705)
(1,078) Premises	(1,115)
(6,037) Supplies and Services	(6,994)
(4,725) Transport	(4,583)
(179) S.L.A. Costs	(102)
1,057 Financial and Miscellaneous	(143)
(1,048) Depreciation and revaluation increase/(decrease)	(475) 1(e),8
(1,051) Pension service gain(cost) net of charges made to the general fund	(962) 1(h),7
<u>(29,827) <i>Net Operating Expenditure</i></u>	<u>(32,079)</u>
<u>8,316 <i>Surplus/(deficit) on trading operations</i></u>	<u>5,282</u>
<i>Other Operating expenditure</i>	
0 Gain/(Loss) on Disposal of Property, Plant and Equipment	0
<u>0</u>	<u>0</u>
<i>Financing and investment income and expenditure</i>	
(624) Pensions Interest Cost and Expected Return on Pension Assets	(593) 1(h),7
80 Interest Receivable	70
(8,472) Dividend paid	(8,798)
<u>(9,016)</u>	<u>(9,321)</u>
<u>(701) <i>Surplus/(Deficit) on provision of service</i></u>	<u>(4,039)</u>
<i>Other Comprehensive income and expenditure</i>	
3,500 Actuarial gains / (losses) on pension assets / liabilities	(11,513)
(60) Gains / (losses) on revaluations of PPE and depreciation	0
<u>3,440</u>	<u>(11,513)</u>
<u>2,739 <i>Total comprehensive Income and Expenditure</i></u>	<u>(15,552)</u>

# BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2016 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.

31st Dec 2015 £'000		31st Dec 2016 £'000	<u>Note</u>
<b>ASSETS AND LIABILITIES</b>			
<b>Long term Assets</b>			
<b>Property, Plant and Equipment</b>			
9,240	Land and Buildings	9,058	1(e),8
1,032	Vehicles, Furniture & Equipment	784	1(e),8
<u>69</u>	Intangible Assets	<u>30</u>	1(e),8
<b><u>10,341</u></b>	<b>Total Long Term Assets</b>	<b><u>9,872</u></b>	
<b>Current Assets</b>			
12,544	Inventories	12,213	1(m),9
11,827	Short term debtors	12,353	1(u),10
<u>17,237</u>	Cash and cash equivalents	<u>14,214</u>	
<b><u>41,608</u></b>	<b>Total Current Assets</b>	<b><u>38,780</u></b>	
<b>Current Liabilities</b>			
<u>(8,357)</u>	Short term creditors	<u>(7,543)</u>	1(v),11
<b><u>(8,357)</u></b>	<b>Total Current Liabilities</b>	<b><u>(7,543)</u></b>	
<b><u>33,251</u></b>	<b>Net Current Assets</b>	<b><u>31,236</u></b>	
<b>Long term Liabilities</b>			
<u>(16,827)</u>	Liability relating to Defined Benefit Pension Scheme	<u>(29,895)</u>	1(h),7
<b><u>26,765</u></b>	<b>Net Assets</b>	<b><u>11,213</u></b>	
<b>Financed by:</b>			
<b>Usable Reserves</b>			
30,302	General Fund	28,818	
85	Usable Capital Receipts Reserve	85	1(g),13
2,303	Internal Investment reserve	1,770	1(g),13
<b>Unusable Reserves</b>			
11,014	Joint Committee Capital Adjustment Account	10,545	1(g),13
<u>(16,827)</u>	Pension Reserve	<u>(29,895)</u>	1(h),7,13
(113)	Earmarked Accumulated Absences Account	(111)	1(g),13
0	Revaluation Reserve	0	1(g),13
<b><u>26,765</u></b>	<b>Total Reserves</b>	<b><u>11,213</u></b>	

## 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.

<b>2015</b>		<b>2016</b>
<b>£'000</b>		<b>£'000</b>
<b>(701)</b>	<b>Net surplus/(deficit) on the provision of service</b>	<b>(4,039)</b>
	<b>Adjustment to the net surplus/(deficit) for non cash movements</b>	
1,048	Depreciation and revaluation increase/(decrease)	475
<b>(1,912)</b>	(Increase)/Decrease in Inventories	331
2,474	(Increase)/Decrease in Debtors	<b>(526)</b>
1,675	(Increase)/Decrease in Pension Liability	1,555
71	Increase/(Decrease) in Creditors	<b>(813)</b>
<b>(1,272)</b>	Redemption of loyalty vouchers	<b>(1,690)</b>
<hr/> 2,084		<hr/> <b>(668)</b>
	<b>Adjustments for items included in the net surplus/(deficit) that are financing/investing activities</b>	
8,339	Proceeds from sale of PPE	8,798
<b>8,339</b>	Dividend payment	<b>8,798</b>
<hr/> <b>9,722</b>	<b>Net cash flows from operating activities</b>	<hr/> <b>4,091</b>
	<b>Investing Activities</b>	
<b>(798)</b>	Purchase of PPE	<b>(6)</b>
0	Proceeds from Sale of PPE	0
<hr/> <b>(798)</b>		<hr/> <b>(6)</b>
	<b>Financing Activities</b>	
<b>(7,067)</b>	Dividends paid to Members	<b>(7,108)</b>
<hr/> <b>(7,067)</b>		<hr/> <b>(7,108)</b>
<hr/> <b>1,857</b>	<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<hr/> <b>(3,023)</b>
15,379	Cash and Cash Equivalents at the beginning of the reporting period	17,237
<hr/> <b>17,237</b>	<b>Cash and Cash Equivalents at the end of the reporting period</b>	<hr/> <b>14,214</b>

<b>Note on operating activities</b>		
	The cash flows from operating activities include the following items	
80	Interest Receivable	70
<b>80</b>		<b>70</b>

## Notes to the Core 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 C.I.P.F.A Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and Service Reporting Code of Practice 2015/16, 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 prevent it from taking advantages of certain statutory overrides contained within the code.

In this respect, certain aspects of the code are redundant. In each of these cases the Organisation has adopted policies which it believes present fairly the financial position of the Organisation.

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 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 core 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. TURNOVER**

Turnover is 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. Rebates refer to the value of commission earned on contractual activity in the year. Other income includes marketing support for catalogue production and promotion.

#### **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 revenue account 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.

## Notes to the Core Financial Statements

### **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) Non current assets 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 included in the Balance Sheet at fair 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 Account

The latest valuation date of land and buildings was 9th December 2016, and was carried out by J Duck FRICS of NPS Humber Ltd.

- iv) Non-current Assets 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 a non current asset 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 a non current asset is recognised as part of a review or a valuation exercise it is accounted for as a charge against the Comprehensive Income and Expenditure Account 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 of the asset and the value of the asset in the balance sheet plus any material costs of disposal. 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:

Freehold Buildings	2016
41 Industrial Park	46 years
Flanshaw Way	41 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 FIXED ASSETS**

Intangible fixed 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 fixed 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 fixed assets and is charged from the time the asset becomes operational. The useful life of the Intangible fixed assets held on the Register are as follows:

Internally generated intangible assets - IT 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**

## Notes to the Core Financial Statements

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 average 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, statutory provisions require the General Fund balance to be charged with 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 required 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.

### 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 2.7% on funded liabilities and 2.7% on unfunded liabilities (based on a weighted average of "spot yields" on AA rated corporate bonds).

The assets of West Yorkshire Pension Fund attributable to the Organisation are included in the Balance Sheet at their fair value:

- . quoted securities - current bid price
- . unquoted securities - professional estimate
- . unitised 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.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Organisation to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. 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.

## Notes to the Core Financial Statements

### **i. TAXATION**

Local authorities are 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, EXTRAORDINARY ITEMS AND PRIOR YEAR ADJUSTMENTS**

Any material exceptional or extraordinary items are separately disclosed in the accounts.

Material prior period adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figures in the financial statements and notes, together with the cumulative effect on reserves. The effect of material prior period adjustments is 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 have been 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), has been disclosed as a note to the Core Financial Statements. The note states the nature of the event and, where possible, an estimate of its financial effect.

### **l. INTEREST RECEIVABLE/PAYABLE**

Bank 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). Fixed Assets held under finance leases are accounted for as part of Property, Plant and Equipment. No assets were held on finance leases as at 31st December 2016.

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 are not accrued in the accounting statements. Material contingent liabilities 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.

Provisions are classified as long term (in excess of twelve months) and short term (less than twelve months).

### **q. FINANCIAL INSTRUMENTS**

The Organisation's financial instruments are represented by bank balances, inventories, 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.

Inventories are valued at average cost, and shown in the Balance Sheet at the lower of cost or net realisable value. Adequate measures are taken by the Organisation to minimise losses to inventory items through delivery processing, damage, obsolescence and security issues.

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.

## Notes to the Core Financial Statements

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.

The Organisation has developed a global sourcing programme leading to increased trade with non euro zone suppliers. Every reasonable action to minimise the risk associated with sourcing product from non UK based suppliers has been taken.

### **r. ESTIMATION TECHNIQUES**

This statement of accounts includes estimated figures for income due from suppliers in respect of marketing contributions and rebates earned on contractual business. The estimations are based on a prudent approach utilising prevailing market conditions, historical knowledge and contracted agreements.

Additionally estimates are included on valuations of certain elements of property, plant and equipment, stock and the pension fund. These estimates are provided by third parties holding relevant professional qualifications and are disclosed in the relevant notes to these accounts.

### **s. 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. Cash equivalents are deposits that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **t. 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.

### **u. DEBTORS**

Debtors are represented by balances due to the Organisation on trading activities net of a provision for bad or doubtful debt. They are stated at historical cost.

### **v. CREDITORS**

Creditors are represented by balances owed by the Organisation on trading activities they are stated at historical cost. Creditor amounts due in foreign currencies at the end of the accounting period are re-stated on the prevalent conversion rate as at 31st December.

### **w. IMPACT OF ACCOUNTING STANDARDS ADOPTED SINCE THE LAST ACCOUNTING PERIOD**

The Organisation has not been impacted through any accounting standards adopted since the last accounting period.

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

The Code of Practice on Local Authority Accounting 2015/16 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.

The Organisation does not expect any significant changes however all the standards will be fully assessed and adopted where necessary in the 2017 Statement of Accounts.

## **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 :

### **Leasing**

The Organisation has reviewed all classes of leases held by the Organisation and concluded that all of these leases constitute operating leases and therefore have no impact on the re-statement to and IFRS basis of accounting.

### **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.

### **Invoicing of direct supply goods**

The Organisation recognises that due to the method employed to charge customers for direct supply deliveries, that goods delivered and in transit which have been invoiced by the supplier but not yet processed by the Organisation, are accounted for in the period in which the transaction is processed rather than delivered. This figure is not material for this statement of accounts and is reviewed annually.

## Notes to the Core Financial Statements

### **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 consulting 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 £2.128m.

#### **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 5% this would represent a movement of around £50K.

#### **Property, Plant & Equipment**

Assets are 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 income and expenditure account. The difference relates to the movement in spot rates between the two events.

### **5. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

During 2016 there have been several items of material income and expenditure that have been reflected in this statement of accounts. The main ones are;

Invoiced turnover in 2016 was £113.9m, £11.1m below the budget for the year and down on last year by £3.5m.

A reduction in sales across most selling categories has contributed to this with Directs Furniture and School supplies the largest adverse variance against budget.

An additional £0.641m of catalogue contribution income has been taken in the year due to an under accrual of expected income in the 2015 year end accounts.

An agreed dividend distribution of £9.230m for the trading year 2015 was distributed in September 2016. This distribution included all customers. As at the 31st December 2016 there was a balance of £432K of loyalty vouchers unredeemed.

### **6. TURNOVER**

Turnover is the VAT exclusive value of invoiced sales for goods supplied from stock and by 'direct supply' arrangements. See also Statement of Accounting Policies note 1(b). Commission income from framework contracts arranged by the Organisation for customers is shown as Rebates. Supplier contributions for marketing support, canteen sales and other non-trading income are shown in Other Income.

### **7. 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 payments 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 final salary 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 March 2016 was 12.1% and from April to December was 11.9%. Employees contributions in 2016 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.

## Notes to the Core Financial Statements

### 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
	2015 £'000	2015 £'000	2015 £'000	2016 £'000	2016 £'000	2016 £'000
<b>Comprehensive Income and Expenditure Account</b>						
<b>Cost of Service</b>						
Current Service Cost	2,567	0	2,567	2,511	0	2,511
Past Service (Gain)/Cost	80	0	80	0	0	0
Curtailement (Gain)/Loss		0	0		0	0
<b>Financing and investment income and Expenditure</b>						
Net interest Expense	592	32	624	561	32	593
<b>Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services</b>	<b>3,239</b>	<b>32</b>	<b>3,271</b>	<b>3,072</b>	<b>32</b>	<b>3,104</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>						
<b>Remeasurement of the net defined benefit liability</b>						
Return on plan assets (gains)/losses	232	0	232	(11,444)	0	(11,444)
Actuarial (Gains) and losses-demographic assumptions	0	0	0	0	0	0
Actuarial (Gains) and losses-experience	(274)	(6)	(280)	(750)	(16)	(766)
Actuarial (Gains) and losses-financial assumptions	(3,436)	(16)	(3,452)	23,618	105	23,723
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(239)</b>	<b>10</b>	<b>(229)</b>	<b>14,496</b>	<b>121</b>	<b>14,617</b>
<b>Movement in Reserves Statement</b>						
Reversal of net charges made to the comprehensive Income and Expenditure account for post employment benefits in accordance with the Code	(3,239)	(32)	(3,271)	(3,072)	(32)	(3,104)
Actual amount charged against the General Fund balance for pensions in the year:						
- employer's contributions to the pension scheme	1,532		1,532	1,485		1,485
-retirement benefits payable to pensioners		64	64		64	64
<b>Total Charge against the General fund</b>	<b>(1,707)</b>	<b>32</b>	<b>(1,675)</b>	<b>(1,587)</b>	<b>32</b>	<b>(1,555)</b>

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

	Males		Females	
	2015	2016	2015	2016
Rating to base table	0	0	0	0
Scaling to base table rates	105%	105%	100%	100%
Cohort improvement factors	CMI2012	CMI2012	CMI2012	CMI2012
Minimum underpin to improvement factors	1.50%	1.50%	1.50%	1.50%
Future lifetime from age 65 (currently aged 65)	22.6	22.7	25.5	25.6
Future lifetime from age 65 (currently aged 45)	24.8	24.9	27.8	28

### 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	
	2015 £000s	2016 £000s	2015 £000s	2016 £000s
<b>Pension Assets and Liabilities</b>				
<b>Recognised in the Balance Sheet</b>				
Fair value of assets	71,953	85,381	0	0
Present value of the defined benefit obligation	(87,863)	(114,302)	(917)	(974)
<b>Net liability arising from defined benefit obligation</b>	<b>(15,910)</b>	<b>(28,921)</b>	<b>(917)</b>	<b>(974)</b>

## Notes to the Core Financial Statements

### 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.

	<u>2015</u>	<u>2016</u>
	<u>£'000</u>	<u>£'000</u>
Balance at 1st January	70,337	71,953
Interest income	2,452	2,651
Remeasurement gains/ (losses) on assets	(232)	11,444
Employer contributions	1,532	1,485
Contributions by scheme participants	790	811
Benefits paid	(2,926)	(2,963)
<b>Balance at 31st December</b>	<b>71,953</b>	<b>85,381</b>

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

	Funded Liabilities		Unfunded Liabilities	
	2015	2016	2015	2016
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance at 1st January	(88,018)	(87,863)	(971)	(917)
Current Service Cost	(2,567)	(2,511)		
Interest Cost	(3,044)	(3,212)	(32)	(32)
Contributions by scheme participants	(790)	(811)		
Remeasurement gains and (losses)				
<i>Actuarial gains and (losses) - demographic assumptions</i>	0	0		
<i>Actuarial gains and (losses) - financial assumptions</i>	3,436	(23,618)	16	(105)
<i>Actuarial gains and (losses) - experience</i>	274	750	6	16
Benefits paid	2,926	2,963	64	64
Past service costs and curtailments	(80)	0		
<b>Balance at 31st December</b>	<b>(87,863)</b>	<b>(114,302)</b>	<b>(917)</b>	<b>(974)</b>

### Local Government Pension Scheme Assets

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

	Assets held	
	<u>2015</u>	<u>2016</u>
Equity investments	75.00%	76.00%
Property	4.60%	4.40%
Bonds	15.20%	14.50%
Other assets *	5.20%	5.10%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

\* 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.

### 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 December 2013 and the unfunded scheme as at 31st December 2014.

The principal assumptions used by the actuary have been:

	Funded element		Unfunded element	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Mortality assumptions				
Longevity at 65 for future pensioners				
Men	24.8 years	24.9 years		
Women	27.8 years	28.0 years		
Longevity at 65 for current pensioners				
Men	22.6 years	22.7 years	22.6 years	22.7 years
Women	25.5 years	25.6 years	25.5 years	25.6 years
Rate of Inflation (RPI)	3.00%	3.20%	2.90%	3.20%
Rate of Inflation (CPI)	1.90%	2.10%	1.80%	2.10%
Rate of Increase in Salaries	3.40%	3.60%	-	-
Rate of Increase in Deferred Pensions	1.90%	2.10%	-	-
Rate of Increase in Pensions	1.90%	2.10%	1.80%	2.10%
Rate for discounting scheme liabilities	3.70%	2.70%	3.60%	2.70%
Take-up of option to convert annual pension into retirement lump sum	75.00%	75.00%		

## Notes to the Core Financial Statements

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, ie on an actuarial basis using the projected unit credit method.

### Impact on the Defined benefit Obligation in the Scheme

Member Life expectancy (+ or - 1 year)  
 Rate of increase in salaries (+ or - 0.1%)  
 Rate of increase in pensions (+ or - 0.1%)  
 Rate for discounting scheme liabilities (+ or - 0.1%)

Increase in Assumption £000	Decrease in Assumption £000
3,386	(3,365)
582	(576)
1,580	(1,557)
(2,128)	2,168

### 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 £29.895m 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 2017 are £1.532m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2017 are £0.064m.

The weighted average duration of the defined benefit obligation for scheme members is 18.8 years.

The scheme will need to take account of the national charges to the scheme under the Public Pensions Services act 2013 Under the act, the Local Government pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

## Notes to the Core Financial Statements

### 8. Property Plant and Equipment

As at 31 December 2016, the Organisation held the following assets

Property plant and equipment were predominantly represented by 48 Delivery vehicles (2015 = 48), 93 Container units (2015 = 93) and Land and Buildings comprising of one general supplies warehouse and office complex located at 41 Industrial Park, Wakefield and one located at Flanshaw Way, Wakefield (no change from 2015).

#### Property Plant and Equipment

##### Cost or valuation

Opening balance 1 January 2016  
 Acc depreciation write out to gross carrying amount  
 Revaluation increase / (decrease) recognised in the Revaluation Reserve  
 Revaluation increase / (decrease) recognised in the I&E  
 Additions  
 Impairment  
 Disposals

**At 31 December 2016**

##### Depreciation and impairments

Opening balance 1 January 2016  
 Charge for depreciation 2016  
 Disposals  
 Impairment  
 Acc depreciation write out to gross carrying amount  
 Revaluation

**At 31 December 2016**

**Net Book Value at 31 December 2016**

**Net Book Value at 1 January 2016**

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2016	9,240	732	925	3,336	14,233
Acc depreciation write out to gross carrying amount	(156)			-	(156)
Revaluation increase / (decrease) recognised in the Revaluation Reserve		-	-	-	0
Revaluation increase / (decrease) recognised in the I&E	(26)				(26)
Additions	0	6	0	-	6
Impairment					
Disposals					
<b>At 31 December 2016</b>	<b>9,058</b>	<b>738</b>	<b>925</b>	<b>3,336</b>	<b>14,057</b>
Opening balance 1 January 2016	0	387	847	2,727	3,961
Charge for depreciation 2016	156	49	17	188	410
Disposals		-	-	-	0
Impairment		-	-	-	0
Acc depreciation write out to gross carrying amount					0
Revaluation	(156)				(156)
<b>At 31 December 2016</b>	<b>0</b>	<b>436</b>	<b>864</b>	<b>2,915</b>	<b>4,215</b>
<b>Net Book Value at 31 December 2016</b>	<b>9,058</b>	<b>302</b>	<b>61</b>	<b>421</b>	<b>9,842</b>
<b>Net Book Value at 1 January 2016</b>	<b>9,240</b>	<b>345</b>	<b>78</b>	<b>609</b>	<b>10,272</b>

#### 2015 Comparative

#### Property Plant and Equipment

##### Cost or valuation

Opening balance 1 January 2015  
 Acc depreciation write out to gross carrying amount  
 Revaluation increase / (decrease) recognised in the Revaluation Reserve  
 Revaluation increase / (decrease) recognised in the I&E  
 Additions  
 Impairment  
 Disposals

**At 31 December 2015**

##### Depreciation and impairments

Opening balance 1 January 2015  
 Charge for depreciation 2015  
 Disposals  
 Impairment  
 Acc depreciation write out to gross carrying amount  
 Revaluation

**At 31 December 2015**

**Net Book Value at 31 December 2015**

**Net Book Value at 1 January 2015**

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2015	9,877	684	860	2,774	14,194
Acc depreciation write out to gross carrying amount	(168)			-	(168)
Revaluation increase / (decrease) recognised in the Revaluation Reserve	(61)			-	(61)
Revaluation increase / (decrease) recognised in the I&E	(530)				(530)
Additions	122	49	65	562	798
Impairment					
Disposals					
<b>At 31 December 2015</b>	<b>9,240</b>	<b>732</b>	<b>925</b>	<b>3,336</b>	<b>14,233</b>
Opening balance 1 January 2015	0	317	813	2,521	3,651
Charge for depreciation 2015	168	71	34	206	478
Disposals		-	-	-	0
Impairment		-	-	-	0
Acc depreciation write out to gross carrying amount					0
Revaluation	(168)				(168)
<b>At 31 December 2015</b>	<b>0</b>	<b>387</b>	<b>847</b>	<b>2,727</b>	<b>3,961</b>
<b>Net Book Value at 31 December 2015</b>	<b>9,240</b>	<b>345</b>	<b>78</b>	<b>609</b>	<b>10,272</b>
<b>Net Book Value at 1 January 2015</b>	<b>9,877</b>	<b>367</b>	<b>47</b>	<b>252</b>	<b>10,544</b>

## Notes to the Core Financial Statements

### 8a. Intangible Assets

During 2014 the Organisation spent £118K on developing the company's website, on which customers can place orders and make payments. The costs incurred included IT Development and testing time. All costs have been capitalised as Intangible Assets and amortised over 3 years from the time the assets became operational.

#### 31st Dec 2016

##### Cost or valuation

Opening balance 1 January 2016  
Additions  
Impairment  
Disposals

#### At 31 December 2016

##### Amortisation and impairments

Opening balance 1 January 2016  
Amortisation charge for 2016  
Impairment  
Disposals

#### At 31 December 2016

#### Net Book Value at 31 December 2016

#### Net Book Value at 1 January 2016

Intangible Assets £'000
118
<b>118</b>
49
39
<b>88</b>
<b>30</b>
<b>69</b>

#### 2015 Comparative

##### Cost or valuation

Opening balance 1 January 2015  
Additions  
Impairment  
Disposals

#### At 31 December 2015

##### Amortisation and impairments

Opening balance 1 January 2015  
Amortisation charge for 2015  
Impairment  
Disposals

#### At 31 December 2015

#### Net Book Value at 31 December 2015

#### Net Book Value at 1 January 2015

Intangible Assets £'000
118
<b>118</b>
10
39
<b>49</b>
<b>69</b>
<b>108</b>

### 9. Inventories

31st Dec 2016	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	12,577	55	12,632
Purchases	61,657	373	62,030
Recognised as an expense in year	(61,804)	(365)	(62,169)
Reduction of Stock in Transit accrual	(60)	-	(60)
Reversals of write offs in previous years	4	-	4
<b>Closing Inventory balance</b>	<b>12,373</b>	<b>63</b>	<b>12,436</b>
Provision for stock write off	(223)	0	(223)
<b>Closing Inventory balance net of provisions made</b>	<b>12,150</b>	<b>63</b>	<b>12,213</b>

31st Dec 2015	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	10,556	75	10,631
Purchases	64,387	356	64,743
Recognised as an expense in year	(62,536)	(376)	(62,912)
Reduction of Stock in Transit accrual	170	-	170
Reversals of write offs in previous years	-	-	-
<b>Closing Inventory balance</b>	<b>12,577</b>	<b>55</b>	<b>12,632</b>
Provision for stock write off	(88)	0	(88)
<b>Closing Inventory balance net of provisions made</b>	<b>12,489</b>	<b>55</b>	<b>12,544</b>

## Notes to the Core Financial Statements

### 10. DEBTORS AND PAYMENTS IN ADVANCE

Debtors represent monies owed to the Organisation at the Balance Sheet date, which are yet to be received as cash. The Organisation also makes provision for outstanding monies that it is anticipated will not be recovered.

	31st Dec 2015 £'000	31st Dec 2016 £'000
Trade Debtors	8,271	8,053
Accumulated Absences	4	7
Less - Provision for Bad Debts	(57)	(66)
	8,218	7,994
Payments in Advance and accrued income	3,609	4,359
<b>Total</b>	11,827	12,353

Debtors are analysed by the following categories

#### Trade debtors

central government bodies  
other local authorities  
NHS bodies  
public corporations and trading funds  
bodies external to general government (i.e. all other bodies).

	31st Dec 2015 £'000	31st Dec 2016 £'000
central government bodies	1	0
other local authorities	5,229	5,736
NHS bodies	24	27
public corporations and trading funds	0	0
bodies external to general government (i.e. all other bodies).	3,018	2,289
	8,271	8,053

#### Payments in advance and accrued income

central government bodies  
other local authorities  
NHS bodies  
public corporations and trading funds  
bodies external to general government (i.e. all other bodies).

	31st Dec 2015 £'000	31st Dec 2016 £'000
central government bodies	-	-
other local authorities	-	-
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	3,609	4,359
	3,609	4,359

### 11. CREDITORS AND RECEIPTS IN ADVANCE

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

	31st Dec 2015 £'000	31st Dec 2016 £'000
<b>Creditors and Receipts in Advance</b>		
Trade Creditors	5,210	5,693
Accruals	2,871	1,764
VAT	159	-32
Accumulated absences	116	118
<b>Total</b>	8,357	7,543

Creditors are analysed by the following categories

#### Trade creditors

central government bodies  
other local authorities  
NHS bodies  
public corporations and trading funds  
bodies external to general government (i.e. all other bodies).

	31st Dec 2015 £'000	31st Dec 2016 £'000
central government bodies	-	-
other local authorities	47	47
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	5,163	5,646
	5,210	5,693

#### Accruals/VAT

central government bodies  
other local authorities  
NHS bodies  
NHS bodies  
public corporations and trading funds  
bodies external to general government (i.e. all other bodies).

	31st Dec 2015 £'000	31st Dec 2016 £'000
central government bodies	159	-32
other local authorities	770	607
NHS bodies	-	-
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	2,217	1,275
	3,147	1,850

#### Long Term Liabilities

Liability relating to Defined Benefit Pension Scheme

	31st Dec 2015 £'000	31st Dec 2016 £'000
Liability relating to Defined Benefit Pension Scheme	16,827	29,895
<b>Total</b>	16,827	29,895

## Notes to the Core Financial Statements

### 12. RISK TO FINANCIAL INSTRUMENTS

The organisation's financial instruments are represented by bank balances, trade creditors and trade debtors. Certain risks are associated with these classes of cash and cash equivalents as follows.

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.

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.

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.

At the end of the financial year the Organisation was at increased risk over debtors due to changes in the economic climate chiefly brought about by the impact of the Government's comprehensive spending review on the organisation's customer base and the change in education from state to academy status schools. Debtors past due are as follows :-

	2015 £'000	2016 £'000
Two to six months	2,148	1,890
Six months to one year	248	222
More than one year	143	61
<b>Total</b>	<b>2,539</b>	<b>2,173</b>

A general provision of £66k (2015 £57k) has been included against all debtors. Bad debt calculations are based on the debtor type and agreed upon with the sales ledger manager.

### 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 2015 £'000	31st Dec 2016 £'000	Net Movement in the Year £'000	Note
<u>Usable reserves</u>				
General Fund Balance	30,302	28,818	(1,484)	i
Capital Receipts Reserve	85	85	0	ii
Internal Investment Reserve	2,303	1,770	(533)	iii
<u>Unusable reserves</u>				
Joint Committee Capital Adjustment Account	11,014	10,545	(469)	iv
Earmarked Pension reserve	(16,827)	(29,895)	(13,068)	v
Earmarked Accumulated Absences Account	(113)	(111)	1	vi
Revaluation reserve	0	0	0	vii
<b>Total reserves</b>	<b>26,765</b>	<b>11,213</b>	<b>(15,553)</b>	

## Notes to the Core Financial Statements

- (i) The General Fund Balance represents the accumulated operating surplus of the Organisation and is maintained at a prudent level, 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 2016 had a balance of £2m.

<b>General fund balance</b>	<b>2015 £'000</b>	<b>2016 £'000</b>
Balance brought Forward 1st of January	29,507	30,302
Surplus or deficit on operations	(701)	(4,039)
<b>Total comprehensive income and expenditure</b>	<b>(701)</b>	<b>(4,039)</b>
Depreciation and impairment	1,048	475
Revaluation losses (gains)		
Capital expenditure charged to the GF	(798)	(6)
Transfer of cash sale proceeds		
Use of UCRR to fund capital expenditure		
Reversal of IAS 19 charges to I&E	3,271	3,104
Employer's pension contributions	(1,596)	(1,549)
Movement in employee absence accrual	44	(2)
<b>Total voluntary adjustments</b>	<b>1,969</b>	<b>2,023</b>
Pension Contribution Reserve	-	-
Internal Investment Reserve	(473)	533
<b>Total transfers to/from cash reserves</b>	<b>(473)</b>	<b>533</b>
<b>Total transfers to/from earmarked reserves</b>	<b>1,496</b>	<b>2,556</b>
<b>Balance Carried Forward 31st December</b>	<b>30,302</b>	<b>28,818</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>795</b>	<b>(1,484)</b>

- (ii) The Usable Capital Receipts reserve records the receipts from sales of fixed assets less amounts used to finance capital expenditure.

<b>Usable Capital Receipts Reserve</b>	<b>2015 £'000</b>	<b>2016 £'000</b>
Balance brought Forward 1st of January	85	85
<b>Amounts Received</b>		
General receipts	-	-
<b>Amounts Applied</b>		
New Capital Investment	-	-
<b>Balance Carried Forward 31st December</b>	<b>85</b>	<b>85</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>-</b>	<b>-</b>

- (iii) The Internal Investment Reserve holds funds earmarked to support specific initiatives or activities.

<b>Internal Investment Reserve</b>	<b>2015 £'000</b>	<b>2016 £'000</b>
Balance brought Forward 1st of January	1,830	2,303
<b>Transferred to Reserves</b>		
Reserves for specific projects created in year	1,161	580
<b>Amounts Applied</b>		
Reserve balances utilised in year	(688)	(1,112)
<b>Amounts released back to the General Fund</b>		
Reserve balances no longer required and released back to the General Fund		
<b>Balance Carried Forward 31st December</b>	<b>2,303</b>	<b>1,770</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>473</b>	<b>(533)</b>

## Notes to the Core Financial Statements

(iv) 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.

	2015 £000	2016 £000
<b>Joint Committee Capital Adjustment Account</b>		
Balance bought Forward 1st of January Brought Forward adjustment	11,263	11,014
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation and impairment of non-current assets	(1,048)	(475)
Revaluation (losses) gains on property plant and equipment		
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	-
Adjusting amounts written out of Revaluation Reserve	1	0
	10,217	10,539
<b>Net Written out amount of the cost of non-current assets consumed in the year</b>		
<b>Capital financing applied in the year</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-
Capital expenditure charged against the General Fund	798	6
	11,014	10,545
<b>Balance Carried Forward 31st December</b>	<b>11,014</b>	<b>10,545</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(590)</b>	<b>(469)</b>

(v) 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.

	2015 £000	2016 £000
<b>Earmarked Pension Reserve</b>		
Balance bought forward 1st January	(18,652)	(16,827)
Actuarial Gains or (losses) on pension assets and Liabilities	3,500	(11,513)
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,271)	(3,104)
Employers pensions contributions and direct payments to pensioners payable in year	1,596	1,549
	<b>(16,827)</b>	<b>(29,895)</b>
<b>Movement on Assets and Liabilities in year</b>		
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>1,825</b>	<b>(13,068)</b>

(vi) 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.

	2015 £000	2016 £000
<b>Earmarked Accumulated Absences Account</b>		
Balance bought forward 1st January	(69)	(113)
Settlement or cancellation of accrual made in preceding year	69	113
Amount to be accrued for current year	(113)	(111)
Amount to be charged to the Comprehensive Income and Expenditure Statement	(44)	1
	<b>(113)</b>	<b>(111)</b>
<b>Balance as at 31st December</b>		
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(44)</b>	<b>1</b>

## Notes to the Core Financial Statements

(vii) 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

Revaluation Reserve	2015 £000	2016 £000
Balance brought Forward 1st of January	62	0
Upward revaluation of assets	-	-
Difference between fair value depreciation and historical cost depreciation	(1)	0
Revaluation written out to the General Fund	(60)	0
Adjusting amounts written out of the Joint Committee Capital Adjustment Account		
<b>Balance Carried Forward 31st December</b>	<b>0</b>	<b>0</b>
<b>Movement in year represented in the Movement in Reserves Statement</b>	<b>(62)</b>	<b>(0)</b>

### 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	
	2015	2016
50,000 - 54,999	2	2
55,000 - 59,999	5	2
60,000 - 64,999	1	3
65,000 - 69,999	-	-
70,000 - 74,999	2	-
75,000 - 79,999	-	-
<b>TOTAL</b>	<b>10</b>	<b>7</b>

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 2015 are also shown and these officers are excluded from the above table.

2016						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	126,532	-	-	-	14,592	141,123
Executive Director	94,871	-	-	-	10,542	105,413
Executive Director	93,512	-	-	-	10,542	104,054
Assistant Director	82,239	-	-	-	9,228	91,467
	<b>397,153</b>	-	-	-	<b>44,905</b>	<b>442,058</b>

2015						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	126,993	-	-	-	14,726	141,719
Executive Director	94,131	-	-	-	10,639	104,771
Executive Director	92,620	-	-	-	10,639	103,260
Assistant Director	81,667	-	-	-	9,313	90,980
	<b>395,412</b>	-	-	-	<b>45,318</b>	<b>440,729</b>

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

## Notes to the Core Financial Statements

EXIT PACKAGE  £	No. of compulsory redundancies		No. of other departures		Total no. of exit packages		Total cost of exit packages	
	2015 No.	2016 No.	2015 No.	2016 No.	2015 No.	2016 No.	2015 £,000's	2016 £,000's
0 - 20,000	6	-	-	1	6	1	69	13
20,001 - 40,000	1	-	-	-	1	-	27	-
40,001 - 60,000	-	-	-	1	-	1	-	45
60,001 - 80,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>	<b>2</b>	<b>96</b>	<b>58</b>

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

### **15. OPERATING LEASES**

An operating lease means that the risks and rewards of ownership remain with the lessor.

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

	2015 £000	2016 £000
Not later than one year	209	275
Later than one year and not later than five years	387	423
Later than five years	2,262	2,233
	<b>2,858</b>	<b>2,931</b>

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2016 were £470k (2015 £490k) 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.

### **16. AMOUNTS REPORTED FOR DECISION MAKING AND PLANNING**

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.

2015 £'000	YPO Profit & Loss	2016 £'000
	<b>Trading</b>	
72,448	Stores	71,924
16,445	Food	15,625
28,510	Directs	26,355
<b>117,404</b>	<b>Total Invoiced Sales</b>	<b>113,904</b>
(86,673)	Cost of Sales	(83,926)
<b>30,731</b>	<b>Gross Margin</b>	<b>29,978</b>
199	Discounts	142
4,902	Rebates	4,335
2,310	Other Income	2,905
<b>38,142</b>	<b>Total Income</b>	<b>37,361</b>
	<b>Operating Costs</b>	
(16,572)	Employment costs	(17,583)
(1,007)	Premises	(940)
(5,616)	Supplies and Services	(6,178)
(4,725)	Transport	(4,583)
(179)	SLA costs	(102)
1,057	Financial & Misc	(143)
(1,048)	Depreciation	(475)
<b>(28,089)</b>	<b>Total Operating Costs</b>	<b>(30,005)</b>
80	Interest (payable)/receivable	70
-	Profit/(loss) on disposal of assets	-
-	Dividend paid	-
-	Pension costs	-
<b>10,133</b>	<b>Surplus or (deficit)</b>	<b>7,426</b>

## Notes to the Core Financial Statements

2015 £'000	Reconciliation of P&L Account to I&E Account	2016 £'000
10,133	Net Profit in P&L Account	7,426
(10,835)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	(11,465)
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
<b>(701)</b>	<b>Surplus/(Deficit) on provision of service</b>	<b>(4039)</b>

### 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 2016	P&L Acct £'000	Amts not Alloc'n of rptd for mgt reporting dec making expenses		I&E Statement £'000
		£'000	£'000	
<b>Total Invoiced Sales</b>	<b>113,904</b>	-	-	<b>113,904</b>
Cost of Sales	(83,926)	-	-	(83,926)
<b>Gross Margin</b>				
Discounts	142	-	-	142
Rebates	4,335	-	-	4,335
Other Income	2,905	-	-	2,905
<b>Total Income</b>	<b>37,361</b>	<b>0</b>	-	<b>37,361</b>
<b>Operating Costs</b>				
Employment costs	(17,583)	-	-	(17,583)
Premises	(940)	-	-	(940)
Supplies and Services	(6,178)	-	-	(6,178)
Transport	(4,583)	-	-	(4,583)
SLA costs	(102)	-	-	(102)
Financial & Misc	(143)	-	-	(143)
Depreciation	(475)	-	-	(475)
<b>Total Operating Costs</b>	<b>(30,005)</b>	<b>0</b>	-	<b>(30,005)</b>
Interest (payable)/receivable	70	-	-	70
Profit/(loss) on disposals	-	-	-	0
Dividend paid	-	(8,798)	-	(8,798)
Earmarked reserves funding	-	(1,112)	-	(1,112)
Pension costs	-	(1,555)	-	(1,555)
<b>Surplus or (deficit) on provision of service</b>	<b>7,426</b>	<b>(11,465)</b>	-	<b>(4,039)</b>

YPO Profit & Loss 2015	P&L Acct £'000	Amts not Alloc'n of rptd for mgt reporting dec making expenses		I&E Statement £'000
		£'000	£'000	
<b>Total Invoiced Sales</b>	<b>117,404</b>	-	-	<b>117,404</b>
Cost of Sales	(86,673)	-	-	(86,673)
<b>Gross Margin</b>				0
Discounts	199	-	-	199
Rebates	4,902	-	-	4,902
Other Income	2,310	-	-	2,310
<b>Total Income</b>	<b>38,142</b>	<b>0</b>	-	<b>38,142</b>
<b>Operating Costs</b>				
Employment costs	(16,572)	-	-	(16,572)
Premises	(1,007)	-	-	(1,007)
Supplies and Services	(5,616)	-	-	(5,616)
Transport	(4,725)	-	-	(4,725)
SLA costs	(179)	-	-	(179)
Financial & Misc	1,057	-	-	1,057
Depreciation	(1,048)	-	-	(1,048)
<b>Total Operating Costs</b>	<b>(28,089)</b>	<b>0</b>	-	<b>(28,089)</b>
Interest (payable)/receivable	80	-	-	80
Profit/(loss) on disposals	-	-	-	0
Dividend paid	-	(8,472)	-	(8,472)
Earmarked reserves funding	-	(688)	-	(688)
Pension costs	-	(1,675)	-	(1,675)
<b>Surplus or (deficit) on provision of service</b>	<b>10,133</b>	<b>(10,835)</b>	-	<b>(701)</b>

## Notes to the Core Financial Statements

### 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 53 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 with each founder member was:

	<b>2015</b>	<b>2016</b>
	<b>£'000</b>	<b>£'000</b>
Barnsley	14,850	17,096
Bolton	13,688	9,998
Bradford	24,049	25,108
Calderdale	10,355	11,901
Doncaster	18,279	15,868
Kirklees	20,705	27,367
Knowsley	7,287	9,820
North Yorkshire	21,941	22,882
Rotherham	13,257	13,231
St Helens	9,741	11,138
Wakefield	21,157	21,333
Wigan	15,353	16,387
York	7,798	6,461
	<b>198,461</b>	<b>208,590</b>

The above table includes trade direct with the Organisation which is included in invoiced turnover and business transacted through framework contracts arranged by the Organisation. which are not accounted for as turnover in the comprehensive income and expenditure account.

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.

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.

	<b>Transactions Value (Ex VAT) for the year £</b>	<b>Outstanding Balance as at 31st Dec 2016 £</b>
<b>YPO Procurement Holdings</b>	-	-
<b>YPO Supplies Ltd</b>	1,170,634	247,815

### 18. AUDIT COSTS

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

	<b>2015</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Audit Costs</b>		
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	29	23

## Notes to the Core Financial Statements

### **19. EVENTS AFTER THE BALANCE SHEET DATE**

The 24th March 2017 Management Committee Meeting approved the pre audit statement of Accounts and agreed a profit distribution in respect of the 2016 trading year of £7.928m covering members dividend and the YPO loyalty scheme.

This Statement incorporates changes identified during the course of the audit process and no other events have given rise to changes in this statement between the balance sheet date and the authorisation for issue date of the 19th May 2017 when the accounts were authorised for issue by the Audit and Scrutiny Sub Committee.

## 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.

Where items of income or expense are material, their nature and amount is disclosed separately, 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.

## Index of notes

Index-Notes to the Core Financial Statements	Note no	Page no
Accounting Policies	1	13
Accounting standards issued but not yet adopted	2	17
Amounts reported for decision making and planning	16	29
Assumptions made about the future	4	18
Audit Costs	18	31
Creditors	11	24
Critical judgements in applying accounting policies	3	17
Debtors	10	24
Events after the Balance Sheet date	19	32
Inventories	9	23
Operating Leases	15	29
Material items of income and expense	5	18
Property Plant and Equipment	8	22
Intangible Assets	8a	23
Related party transactions	17	31
Employee Emoluments	14	28
Movement in Reserves	13	25
Retirement benefits accounted for as defined benefit contribution schemes	7	18
Risks to financial instruments	12	25
Turnover	6	18

	<p><b>REPORT TO</b></p> <p><b>AUDIT &amp; SCRUTINY SUB COMMITTEE</b></p> <p><b>TO BE HELD ON</b></p> <p><b>19<sup>TH</sup> MAY 2017</b></p>
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**TITLE: GOVERNANCE REVIEW**

**REPORT OF: MANAGING DIRECTOR**

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**1. PURPOSE OF REPORT**

1.1 To review the policies and processes by which YPO is managed.

**2. BACKGROUND INFORMATION**

2.1 YPO has in place various governance policies which detail its approach to managing the organisation. These are reviewed at least annually and any changes brought to Management Committee for approval.

2.2 During the last 12 months the following policies and protocols have been reviewed with the recommended actions detailed below:

<b>Item</b>	<b>Latest Status</b>	<b>Proposed Action</b>
<b>Retention Policy (Information)</b>	New policy, reviewed and agreed 14 <sup>th</sup> March 2016	Next step is to identify and train Information Asset Owners
<b>Data Protection Policy &amp; Guidance</b>	Reviewed and agreed 23 <sup>rd</sup> August 2016	Part of ongoing preparation to comply with the General Data Protection Regulation (GDPR)
<b>Information Security Incident Reporting</b>	Last reviewed August 2016	No further action
<b>Risk Management Policy &amp; Strategic Framework</b>	Reviewed and minor changes agreed 23 <sup>rd</sup> August 2016	No further action
<b>Assurance Statement 2016</b>	Reviewed 13 <sup>th</sup> December 2016	MD and ED to review and provide feedback – now completed
<b>Finance Procedure Rules &amp; Standing Orders</b>	Reviewed and agreed 17 <sup>th</sup> January 2017	No further action

**3. STRATEGIC IMPLICATIONS**

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

#### **4. FINANCIAL IMPLICATIONS**

4.1 There are no specific financial implications associated with this report.

#### **5. LEGAL IMPLICATIONS**

5.1 The governance documents are supporting documents which aid compliance with various pieces of legislation such as the Bribery Act 2010 and good practice such as the CIPFA / SOLACE Governance Framework.

5.2 In the last 12 months there has been an increased emphasis on YPO's information governance arrangements, in response to increased risk in this area, advice from the Information Commissioner's Office (ICO), and in preparation for compliance with the General Data Protection Regulation.

#### **6. EQUALITY IMPLICATIONS**

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

#### **7. RISK IMPLICATIONS**

7.1 This is an update to a procedure supporting the governance of the organisation. Thus accepting the report does not in itself pose any risk to the organisation's wellbeing.

#### **8. RECOMMENDATION**

8.1 That the Audit and Scrutiny Sub-Committee recommends to the Management Committee that the proposals outlined in the table at 2.2 are adopted.

#### **SERVICE DIRECTOR: SIMON HILL, MANAGING DIRECTOR**

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**YPO**  
**AUDIT & SCRUTINY SUB COMMITTEE**  
**TO BE HELD ON**  
**19<sup>TH</sup> MAY 2017**

**TITLE: PROGRESS ON THE 2017 INTERNAL AUDIT PLAN**

**REPORT OF: THE s151 OFFICER**

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**1 PURPOSE OF REPORT**

- 1.1 This report is produced by the s151 Officer to provide Members with details of Internal Audit's performance and work since the last meeting of the Audit Sub-Committee on the 10<sup>th</sup> February 2017.

**2 BACKGROUND INFORMATION**

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

**3 STRATEGIC IMPLICATIONS**

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

**4 FINANCIAL IMPLICATIONS**

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

**5 LEGAL IMPLICATIONS**

- 5.1 There is a statutory requirement for an Internal Audit function within YPO, as set out in the Accounts and Audit Regulations and implied within the Local Government Act 1972, relating to the responsibility of a designated statutory s151 Finance Officer to gain assurance on the proper administration of the Organisation's financial affairs.

**6 EQUALITY IMPLICATIONS**

- 6.1 There are no direct implications relating to equality.

**7 RISK IMPLICATIONS**

- 7.1 Internal Audit makes a significant contribution to providing management and Members with assurances on the Organisation's systems of internal control. Its contribution assists in identifying areas for improvement in control in the management of key risks.
- 7.2 In line with the terms of reference for the Audit & Scrutiny Sub-Committee, consideration of this report contributes to fulfilling its assurance role, in the ongoing review of internal controls and overall risk management arrangements.

**8 RECOMMENDATION**

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

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

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# Internal Audit Progress Report

## As At April 2017

**REPORT OF:** Mark St Romaine, Service Manager – Internal Audit & Risk  
(Wakefield Council)  
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**CONTACT OFFICER:** Carl Tweed, Audit Manager (Wakefield Council)  
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**PURPOSE OF REPORT**

1. The purpose of this report is to:
  - 1.1 Present to the YPO Audit & Scrutiny Sub-Committee details of Internal Audit’s performance and work since the last meeting of the Audit Sub-Committee on the 10<sup>th</sup> February 2017.
  - 1.2 Highlight any significant issues arising from audit work and the current position on implementing agreed actions.
  - 1.3 Consider future audit work.

**PROGRESS ON THE 2017 AUDIT PLAN**

2. Three Internal Audit reports have been issued so far in 2017. Two of these reports were discussed at the Audit Sub-Committee on the 10<sup>th</sup> February 2017, namely:
  - Main Financial Systems 2016.
  - Electronic Card Payments

In addition, the December 2016 audit report on ‘Procedures in Place for Delivering Business Planning Objectives / Priorities’ was also discussed at the meeting.

The completed action plans for these three reports have now been returned to Internal Audit. For completeness, written details of the actions taken are shown below:

Report (Including Audit Opinion and Main Messages)	Actions Taken By YPO
<p style="text-align: center;"><u>Main Financial Systems 2016</u> <u>(19/01/17)</u></p> <p>The audit opinions were:</p> <ul style="list-style-type: none"> <li>• <b>Mostly Implemented</b> (Implementation of Previously Agreed Actions)</li> <li>• <b>Mostly Effective</b> (Ordering and Creditors – Working Expenses and Hired Carriers)</li> <li>• <b>Fully Effective</b> (Ordering and Creditors – Business Creditors)</li> <li>• <b>Mostly Effective</b> (Asset Management)</li> </ul> <p>The audit marked the first year of a new approach to auditing the main financial systems. Rather than covering all nine systems annually, the</p>	<p>Actions taken based on information supplied by YPO include the following:</p> <ul style="list-style-type: none"> <li>• Payment Card Administrators are taking action to ensure that Payment Card documentation is complete, including a signed user agreement.</li> <li>• The appropriate managers have held initial discussions about revising the Payment Card Manual and User agreement so that they make direct reference to employees creating Working Expenses orders prior to Payment Card use for all planned spends. The discussions have also covered the documents making reference to receipts being provided to the Purchase Ledger Team within one month of the card statement being issued. The intention is for this to be completed in May.</li> </ul>

Report (Including Audit Opinion and Main Messages)	Actions Taken By YPO
<p>intention is for them to be covered over a three-year cycle. One of the benefits of the new approach is that it has been possible to undertake a slightly more comprehensive review than in past years of the three systems referred to above.</p> <p>The overall assessment of ‘fully effective’ for ‘Ordering and Creditors – Business Creditors’ recognises that, based on discussions with staff and testing carried out by Internal Audit, in all cases sufficient controls are in place and working effectively.</p> <p>The overall assessment of ‘mostly effective’ for ‘Ordering and Creditors – Working Expenses and Hired Carriers’ and ‘Asset Management’ recognises that, in the main, risks are being managed to an appropriate level, with appropriate controls established and in place. However, testing carried out by Internal Audit did find examples of:</p> <ul style="list-style-type: none"> <li>• Payment Card documentation being incomplete, including a signed user agreement;</li> <li>• Retrospective Working Expenses orders, and</li> <li>• Payment Card bank statements not being checked in a timely manner by cardholders.</li> </ul> <p>In addition, it was also noted that:</p> <ul style="list-style-type: none"> <li>• Invoices from Hired Carrier providers cannot be fully reconciled to records of expected spend held by YPO Transport, and</li> <li>• Fleet vehicle keys are not secured in the office or booked in / out by drivers.</li> </ul>	<ul style="list-style-type: none"> <li>• Reminders have been issued to Budget Holders that Working Expenses orders should not be made retrospectively. They have also been reminded that evidence regarding Payment Card transactions (i.e. receipts and invoices) should be provided to the Purchase Ledger Team within the same month of the statement being produced. The intention is for compliance to be checked as part of ongoing monthly budget reviews.</li> </ul> <p>Internal Audit is still awaiting a reply on the actions taken to:</p> <ul style="list-style-type: none"> <li>• Address the issue of not being able to fully reconcile invoices from Hired Carrier providers to records of expected spend held by YPO transport, and</li> <li>• Enhance the controls regarding the issuance and returning of fleet vehicle keys.</li> </ul>

Report (Including Audit Opinion and Main Messages)	Actions Taken By YPO
<p><u>Electronic Card Payments (18/01/17)</u></p> <p>The audit opinion was <b>Partially Effective</b>.</p> <p>The Payment Card Industry Data Security Standards (PCI DSS) self-assessment in 2014 resulted in a low compliance score. Although procedural changes have been subsequently made, YPO still falls short of being fully compliant.</p>	<p>Based on information supplied by YPO, actions are being taken to improve procedures. The intention is to undertake another PCI DSS self-assessment exercise, or similar, later in the year.</p> <p>As the original audit report was given an overall assessment of 'partially effective', a follow up audit will take place in July 2017 at the earliest.</p>
<p><u>Procedures in Place for Delivering Business Planning Objectives / Priorities (15/12/16)</u></p> <p>Audit testing in Sales &amp; Marketing and Trading identified that progress in implementing a Commercial Activity Plan is being monitored by each Head of Department in conjunction with discussions with the Executive Director.</p> <p>Although this approach is working well, it was felt by Internal Audit that the links between Board reports and the detailed objectives in the Commercial Activity Plan could be made clearer. The Board would then be able to provide more challenge and also, if necessary, request the Senior Leadership Team to provide more detailed independent challenge of specific objectives in the Commercial Activity Plan.</p> <p>It was also noted that operational risk registers, which can include business objectives, may not be up-to-date.</p>	<p>Actions taken based on information supplied by YPO include:</p> <ul style="list-style-type: none"> <li>• All risks are now highlighted within the annual sales and marketing plans. The detailed Commercial Activity Plan links directly to the monthly Board reports at a high level and highlights key areas. It is presented and managed by the Executive Director.</li> <li>• The Risk and Compliance Manager arranged meetings with all members of the Senior Leadership Team to review their risk registers. The intention is for the risk registers to be reviewed regularly moving forward.</li> </ul>

3. One Internal Audit report has been issued since the last meeting of the Audit Sub-Committee on the 10<sup>th</sup> February 2017, as shown below:

Report (including Audit Opinion and Main Messages)	Actions Taken By YPO
<p data-bbox="288 210 791 282"><u>Fleet Replacement and Third Party Logistics (29/03/17)</u></p> <p data-bbox="256 322 683 389">The audit opinion was <b>Mostly Effective</b>.</p> <p data-bbox="256 430 799 539">There are sound controls in place and operating effectively in most areas. However, it was noted that:</p> <ul data-bbox="304 580 799 1352" style="list-style-type: none"> <li data-bbox="304 580 799 904">• Regular checks were not being undertaken to identify when driver mandates need to be reviewed for drivers who are YPO employees, and 'Agency Driver Share Your Licence Declaration' forms may not be being completed by all Agency drivers.</li> <li data-bbox="304 945 799 1055">• The Drivers Handbook had not been updated since February 2015.</li> <li data-bbox="304 1095 799 1352">• A Service Level Agreement was being produced to formalise arrangements between Wakefield Council and YPO regarding the servicing and maintenance of YPO's fleet, but it had not yet been signed off.</li> </ul>	<p data-bbox="847 210 1458 320">The completed action plan is not due to be returned to Internal Audit until the 26<sup>th</sup> May 2017.</p>

4. As at the date of producing this report, the following Internal Audit work is ongoing:
  - 4.1 Business Performance Management.
  - 4.2 Consultancy / advice-type support as requested to the Link programme relating to the installation of an ERP (enterprise resource planning) system.
5. In terms of Internal Audit's performance against its own local Key Performance Indicators, the position as at April 2017 is summarised below:
  - 5.1 A calendar year plan was agreed covering the period 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017. The Internal Audit Service is on target to deliver jobs in line with the agreed plan.
  - 5.2 Three client surveys have been issued so far in 2017. All of them have been returned, two with an overall opinion of 'Very Good' (Main Financial Systems 2016, and Fleet Replacement and Third Party Logistics) and one with an overall opinion of 'Good' (Electronic Card Payments).

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

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

6. The first priority for the next four months will be the completion of the audit on Business Performance Management. A draft report has been issued. Consultancy / advice-type support to the Link programme will continue as requested. The intention is to start an audit on Workforce Skills before the end of June. It is also the intention to start audits on Electronic Card Payments Follow Up, Anti-fraud and bribery arrangements, Limited Company and IT Change Control before the end of September. The exact timings of these audits are to be agreed with YPO management.

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

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



**YPO**  
**AUDIT & SCRUTINY SUB COMMITTEE**  
**TO BE HELD ON**  
**19<sup>TH</sup> MAY 2017**

**TITLE: LEAD AUTHORITY SLA COST**

**REPORT OF: HEAD OF FINANCE**

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### **1. PURPOSE OF REPORT**

1.1 The purpose of the report is to inform the Members of all payments made to the Lead Authority in the 2016 financial year. There were no other payments made to other Founder Members during that period.

### **2. BACKGROUND INFORMATION**

2.1 Wakefield Metropolitan District Council is the Lead Authority to YPO.

2.2 Services are provided in accordance with established Service Level Agreements.

2.3 A summary of the payments made in 2016 is shown in appendix 1. The payments were as follows: -

- £319,175 for Fleet services.
- £46,150 for the Internal Audit function. (130 days at £355 per day)
- £16,960 for Legal Services. This covers support at meetings and operational legal support and advice, including chairing the Strategic Officers Group
- £23,700 for Financial Services, including the role of the Section 151 Officer, which involves regular review of YPO activities and attendance at meetings. This SLA also includes payroll controls, banking and treasury activities, together with financial accounting support and insurance advice. Taxation advice is charged in addition as and when required.
- £40,500 for HR services. This includes £12,500 for HR consultancy and £28,000 for payroll and pensions.

### **3 STRATEGIC IMPLICATIONS**

3.1 The Management Agreement sets out the Role of the Lead Authority in paragraph 4 "The Lead Authority for the time being is the Council of the City of Wakefield, which shall perform the following functions on behalf of the Founder Member Authorities:

- (1) Provide the Management Committee with appropriately qualified staff to carry out the roles of Section 151 Officer and Monitoring Officer in relation to YPO;

- (2) Act as employer for all staff of the Management Committee, including the Board of Directors, and to provide such Human Resources input as the Lead Authority considers necessary for the effective discharge of this responsibility;
- (3) Provide an effective internal audit service at a level agreed between the Section 151 Officer and the Audit and Scrutiny Sub-Committee of the Management Committee, including such attendance by Auditors at the Audit and Scrutiny Sub-Committee as is necessary to properly discharge this responsibility;
- (4) Provide effective Committee Administration services to the Management Committee and appropriate sub-committees, at a level considered necessary by the Monitoring Officer;
- (5) Provide effective banking and resource management services on behalf of YPO;
- (5A) Shall operate the goods vehicles required for the business of YPO under the Lead Authority's own Operator's Licence and shall control and authorise decision making about the use of such goods vehicles.
- (6) Consult Founder Member Authorities on changes to Financial Procedure Rules, Standing Orders, Delegation Schemes and this Agreement, and make recommendations to the Management Committee;
- (7) Chair the Strategic Officers Advisory Group;
- (8) Assist the Management Committee to monitor the performance of the Managing Director;
- (9) Have the authority to defer any proposal to incur expenditure or let any contract by the Board of Directors, pending the outcome of a report to the Management Committee or the Executive Sub-Committee of YPO as appropriate and shall charge the cost of such services to the Management Committee.

The performance of the Lead Authority will be considered by the Strategic Officers Advisory Group annually and formally reviewed at least every five years." The last Management Committee received the review of the performance of Wakefield as Lead Authority, which was very positive.

#### **4 FINANCIAL IMPLICATIONS**

4.1 There are no additional financial implications arising from this report. The costs of the SLAs are included within the annual YPO budget.

#### **5 LEGAL IMPLICATIONS**

5.1 There are no legal implications arising from this report.

#### **6 EQUALITY IMPLICATIONS**

6.1 This report has no impact on the equality and diversity agenda.

#### **7 RISK IMPLICATIONS**

7.1 There are no additional risks arising from this report.

## 8 RECOMMENDATION

8.1 It is recommended that the report is noted.

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

YPO  
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WF2 0XE

**Telephone No:** 01924 834969.

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

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## **APPENDIX:**

*Appendix 1 – List of payments made to Wakefield Metropolitan District Council*

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## Appendix 1

### Payments made to Wakefield Metropolitan District Council in financial year 2016

	£	£
<b>Fleet Services</b>		
Fixed Maintenance Charges	225,086	
Fleet Management / Support	50,296	
O License Compliance Fee	43,793	319,175
		<hr/>
<b>SLAs</b>		
Internal Audit fees		46,150
Legal Services		16,960
Financial Services		23,700
HR Services		40,500
<b>Grand total</b>		<b>446,485</b>

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**REPORT TO**  
**AUDIT & SCRUTINY SUB-COMMITTEE**  
**TO BE HELD ON**  
**19<sup>TH</sup> MAY 2017**

**TITLE: 2017/18 WORK PROGRAMME**

**REPORT OF: MANAGING DIRECTOR**

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## **1. PURPOSE OF REPORT**

1.1 To provide members with an overview of the work scheduled for the 2017/18 committee cycle.

## **2. BACKGROUND INFORMATION**

2.1 The Audit and Scrutiny Sub-Committee formed following a merge of the Audit Sub-Committee and Scrutiny Sub-Committee in March 2017. It has a membership of sixteen members drawn from the Management Committee who meet four times during the year. Its primary purpose is to undertake the duties of 'those charged with governance' under delegation from the Management Committee and to scrutinise strategies and actions of the YPO Management Team and provide feedback, comment and recommendations.

2.2 The Audit and Scrutiny Sub-Committee has delegated powers to sign off the annual financial statements and annual governance report on behalf of the Management Committee and ensure it has sufficient information and knowledge to undertake those duties.

## **3 TERMS OF REFERENCE**

3.1 The terms of reference have been reviewed and amended and are attached for Member's consideration.

## **4 PRINCIPAL AGENDA ITEMS**

4.1 The focus of the principal agenda items for the Audit and Scrutiny Sub-Committee are similar to previous years and are aimed at providing the Sub-Committee sufficient information to undertake the role of 'those charged with governance'.

4.2 The proposed principal agenda items along with a meeting schedule and training plan are attached as appendices.

## **5 RECOMMENDATION**

5.1 Members are asked to agree this report for submission to the AGM in the name of the Chair of the Audit and Scrutiny Sub-Committee.

**REPORT AUTHOR: SIMON HILL, MANAGING DIRECTOR**

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41 Industrial Park  
Wakefield  
WF2 0XE

Telephone No: 01924 834912  
E-mail address: [simon.hill@ypo.co.uk](mailto:simon.hill@ypo.co.uk)

**APPENDICIES:**

*Appendix 1 - Terms of Reference 2017/18*  
*Appendix 2 - Principal Agenda Items*  
*Appendix 3 - Meeting Schedule*  
*Appendix 4 - Training Schedule*

**Yorkshire Purchasing Organisation**

**Management Committee Terms of Reference 2017/18**

**Number of Members**

Twenty Six Councillors – Two from each Member Authority

**Quorum**

Member representation from at least five Member Authorities

**Substitutes**

Two named substitutes from each Member Authority.

**Frequency of Meetings**

Three times per annum.

Suggested duration: Max 2 hours (10:30am – 12:30pm)

**Remit**

1. To approve and keep under review a long term plan setting out the strategic direction of YPO.
2. To consider, approve and keep under review Standing Orders, Financial Procedure Rules and the Officer Delegation Scheme prior to subsequent approval by Member Authorities, and to carry out such actions as are required by these rules.
3. To provide leadership for Risk Management across YPO and ensure Risk Management is used as a strategic and operational tool.
4. To keep under review the method of distributing annual dividends, and decide annually on the amount and timing of dividend distribution.
5. To periodically review the membership of YPO.
6. To appoint annually at the Annual General Meeting an Audit & Scrutiny Sub-Committee and an Executive Sub-Committee, and a Joint Consultative Committee and receive minutes or reports from them highlighting any areas that require action by the Management Committee.
7. To seek assurances from the sub-committees that YPO is acting with all due care and attention.
8. The Management Committee shall appoint annually an 'Appointments Committee' with responsibility for the appointment and disciplinary procedures of the Board of Directors and appraising the performance of the Managing Director.

**Yorkshire Purchasing Organisation**

**Executive Sub-Committee Terms of Reference 2017/18**

**Number of Members**

Nine Councillors, including Chair and Vice Chair of the Management Committee.  
Not more than one Councillor from any member authority.

**Quorum**

Three voting members.

**Substitutes**

Agreed named substitutes are Allowed.

**Frequency of Meetings**

Three times per annum.

**Remit**

1. To ensure that the performance of YPO is in accord with established business plans.
2. To receive trading reports from senior managers and that trading operations are in line with approved business plans.
3. To review the performance of the organisation in achieving its objectives through an examination of performance data and relevant performance indicators.
4. To receive reports on spending against approved budgets.
5. To review annually its terms of reference and report any additions and amendments to the Management Committee.
6. To provide an update to Management Committee on the activities of the Committee by way of meeting minutes and responses to any matters arising.
7. To consider applications for Associate Membership of YPO, and recommend them for approval by the Management Committee.

**To act with delegated authority of the Management committee in respect of:**

1. To approve annually, medium term business plans, annual budgets and decisions to ensure year-end targets are achieved.
2. To approve individual capital investment proposals, in line with the overall investment plan agreed by the Management Committee.
3. To agree conditions within which goods, materials and services can be supplied to Member Authorities, Associate Members and other Local and Public Authorities covered by the Local Authorities (Goods and Services) 1970 act and any subsequent modifications.

**Yorkshire Purchasing Organisation**

**Audit & Scrutiny Sub-Committee Terms of Reference 2017/18**

**Number of Members**

Sixteen Councillors, but not the Chair or Vice Chair of the Management Committee

**Frequency of Meetings**

Four times per annum subject to annual review, to be scheduled approximately one month prior to Management Committee meetings.

**Quorum**

Four voting members.

**Substitutes**

Agreed named substitutes are allowed.

**Remit**

1. To ensure that the highest standards of probity and public accountability are demonstrated and in doing so ensure effective governance of YPO.
2. To provide the Management Committee with a reasonable assurance of the efficient and effective operation of the overall internal control environment within YPO, through a systematic appraisal of its framework of internal controls, processes and data quality.
3. To consider internal audit plans and performance to ensure the work of internal audit is planned and carried out with due regard to major risks, areas of significant financial effect and the need to cover the range of the service, and to challenge and review actions taken by senior managers on significant audit recommendations.
4. To consider the external audit work programme and monitor the implementation of significant external audit recommendations.
5. To ensure that an appropriate risk management strategy has been drawn up and to monitor that risk management procedures are being carried out effectively, including the establishment of a reserves policy.
6. To review annually its terms of reference and report any additions and amendments to the Management Committee.
7. To provide an update to management committee on the activities of the committee activity by way of meeting minutes and responses to any matters arising.
8. To ensure the effectiveness of decisions made by YPO by means of conducting scrutiny reviews in accordance with both an approved programme and on an ad-hoc "call in" basis.
9. In conducting reviews receive evidence and call witnesses as appropriate for each review so as to determine how decisions were made, on what basis were they made, if appropriate account of options and risks were considered, if the decisions made reflected original statements of intent and if decisions were made in a timely fashion

and if they were made in the best interests of YPO and in accord with YPO's public accountability and code of corporate governance.

10. To prepare a report following each review, setting out conclusions and recommendations, for submission to the Management Committee.
11. To review periodically the response of senior managers to completed reviews.
12. To carry out reviews requested by the Executive Sub-Committee and the Management Committee.

**To act with delegated authority of the Management committee in respect of:**

1. To approve the annual governance statement to the Management Committee for inclusion in the annual statement of accounts, and review the implementation of any audit recommendations arising from the final accounts audit.
2. To approve the acceptance of the annual statement of accounts. In the event the Committee not being quorate the Chair of the Audit & Scrutiny Sub-Committee shall have delegated authority from the Management Committee to sign the accounts if confident to do so after consultation with the Section 151 Officer.

**Yorkshire Purchasing Organisation**

**Joint Consultative Committee Terms of Reference 2017/18**

**Number of Members**

- Five Councillors (including the Chair and Vice Chair of the Management Committee) drawn from different member authorities.
- The Chair and Secretary of the YPO branch of UNISON.
- The UNISON Regional Organiser responsible for liaising with YPO.

**Frequency of Meetings**

Three times per annum, linked to Management Committee meetings.

**Quorum**

Two Councillors and two Trade Union officials.

**Substitutes**

Agreed name substitutes are allowed.

**Remit**

1. To represent and co-ordinate the views locally of UNISON and Members of the YPO Management Committee on issues of common interest in relation to YPO.
2. To raise issues, make recommendations and reach agreement on issues which have an effect on the employees of YPO, but without binding effect on either party.
3. To monitor and challenge the outputs of any employee satisfaction survey.
4. To promote the well-being of employees and monitor and challenge matters related to sickness and attendance.
5. To promote, challenge and monitor YPO's actions in relation to it being an employer of choice and its public sector equality duties.
6. To review annually its terms of reference and report any additions and amendments to the Management Committee.
7. To provide an update to management committee on any matters arising which warrant a wider discussion.

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## PRINCIPAL AGENDA ITEMS 2017 - 2018

### MANAGEMENT COMMITTEE

November 2017	Author	Agenda
Budget and Business Plans for 2017	PS/S Hall	Private
Associate Member Proposals	JM/DB	Public
Business Update	SH	Private
YPO Pay Policy	JW	Public
Lead Authority Issues	BL	Public
Appointment of Auditors	PS	Public
Independent Director Role	JW	Public
Report of Independent Director	Independent Director	Private

March 2018	Author	Agenda
Pre-Audit Statement of Accounts <i>(For information only)</i>	PS/S Hall	Public
Dividend Distribution <i>(Total amount of dividend)</i>	PS/ S Hall	Private
Internal Audit Annual Report	CT	Public
Associate Member Proposals	JM/DB	Public
Business Update	SH	Private
Report of Independent Director	Independent Director	Private
Internal Audit Plan	CT	Public
Standing Orders & Financial Procedure Rules	PS/S Hall	Public
Lead Authority Issues	BL	Public

June 2018	Author	Agenda
Annual Report	SH	Public
Audited Accounts <i>(For information only)</i>	PS/S Hall	Public
Governance Review	PS/DW	Public
TOR and Work Programme	SH	Public
Business Update	SH	Private
Role of Independent Director	SH	Public
Lead Authority Issues	BL	Public
Membership of the YPO Management Committee	KS	Public
Appointments to Sub-Committees & Joint Consultative Committee	KS	Public
Dividend Distribution <i>(Individual Dividend Amounts)</i>	PS	Private
Report of Independent Director	Independent Director	Private

## PRINCIPAL AGENDA ITEMS 2017 - 2018

### EXECUTIVE SUB COMMITTEE

November 2017	Author	Agenda
Performance Report	PS/S Hall	Private
Lead Authority Issues	BL	Public
Business Update	SH	Private
YPO Pay Policy	JW	Public
Stock Losses Report	PS	Private
Associate Member Proposals	PS	Public

March 2018	Author	Agenda
Performance Report	PS/S Hall	Private
Lead Authority Issues	BL	Public
Business Update	SH	Private
Standing Orders & Financial Procedure Rules	PS/S Hall	Public
Project SEED (Social Value Work)	PS	Private
Earmarked Reserves Spend	PS	Public
Associate Member Proposals	PS	Public

June 2018	Author	Agenda
Performance Report	PS/S Hall	Private
Business Update	SH	Private
Lead Authority Issues	BL	Public
Exec Sub Work Programme & TOR	SH	Public
Associate Member Proposals	PS	Public

## PRINCIPAL AGENDA ITEMS 2017 - 2018

### AUDIT & SCRUTINY SUB COMMITTEE

September 2017	Author	Agenda
People Strategy	JW	Public
IT Programme Update	GR	Private
Stock Losses	PS	Private
Internal Audit Action Update	PS/DW	Private
Customer Satisfaction Survey	JM	Private
Sales Analysis	JM	Private

November 2017	Author	Agenda
Internal Audit Plan Template 2017	CT	Public
Risk Management Process	PS/DW	Public
Risk Register	PS/DW	Private
Year End Closedown Timetable	PS/S Hall	Public
External Audit Plan	KPMG	Public
Annual Audit Letter	KPMG	Public
IT Programme Update	GR	Private
Appointment of Auditors	PS	
Warehouse & Logistics Strategy	JW	Private

February 2018	Author	Agenda
Internal Audit Action Update	PS/DW	Private
Annual Governance Statement	PS/S Hall	Public
Pre-Audit Statement of Accounts ( <b>report will be submitted late but will be in for the official papers deadline</b> )	PS/S Hall	Public
Internal Audit Annual Report 2016	CT	Public
Internal Audit Plan 2016	CT	Public
IT Programme Update	GR	Private
Commercial Strategy/ Sales Analysis	JM	Private
Stock Losses	PS	Private
Gifts & Hospitality	JW	Public

May 2018	Author	Agenda
External Audit Report	KPMG	Public
Audited Statement of Accounts	PS/S Hall	Public
Audit & Scrutiny Sub Work Programme & TOR	SH	Public
Governance Review	PS/DW	Public
Internal Audit Progress	CT	Public
IT Programme Update	GR	Private
ICT Strategy & Business Change Programme	PS/GR	Private
Procurement Services Strategy	PS	Private
Lead Authority SLA Costs	S Hall	Public

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Date of Meeting	Papers Deadline	Board Meeting	Strategic Officers Meeting	Executive Sub Committee	Management Committee	JCC Members Meeting	Audit & Scrutiny Sub Committee	Partnership Liaison Meeting
<b>July</b>								
18/7	9:00	Noon – Wednesday 12 <sup>th</sup> July	Board Meeting					
<b>August</b>								
15/8	9:00	Noon – Wednesday 9 <sup>th</sup> August	Board Meeting					
<b>September</b>								
15/9	10:30	Noon – Wednesday 9 <sup>th</sup> August					Audit & Scrutiny Sub	
19/9	9:00	Noon – Wednesday 13 <sup>th</sup> September	Board Meeting					
<b>October</b>								
TBC		N/A						Partnership Meeting
17/10	9:00	Noon – Wednesday 11 <sup>th</sup> October	Board Meeting					
20/10	10:30	Noon – Wednesday 13 <sup>th</sup> September		Strategic Officers				
<b>November</b>								
3/11	10:30	Noon – Wednesday 11 <sup>th</sup> October					Audit & Scrutiny Sub	
10/11	10:30	Noon – Wednesday 11 <sup>th</sup> October		Executive Sub				
15/11	9:00	Noon – Wednesday 15 <sup>th</sup> November	Board Meeting					
24/11	9:30	Noon – Friday 17 <sup>th</sup> November				JCC		
24/11	10:30	Noon – Wednesday 11 <sup>th</sup> October			Management Committee			
<b>December</b>								
12/12	9:00	Noon – Wednesday 6 <sup>th</sup> December	Board Meeting					
<b>January</b>								
16/1	9:00	Noon – Wednesday 10 <sup>th</sup> January	Board Meeting					
<b>February</b>								
TBC	11:00	N/A						Partnership Meeting
13/2	10:30	Noon – Wednesday 7 <sup>th</sup> February	Board Meeting					
9/2	10:30	Noon – Wednesday 10 <sup>th</sup> January		Strategic Officers				
16/2	10:30	Noon – Wednesday 10 <sup>th</sup> January					Audit & Scrutiny Sub	
<b>March</b>								
9/3	10:30	Noon – Wednesday 7 <sup>th</sup> February		Executive Sub				
20/3	9:00	Noon – Wednesday 14 <sup>th</sup> March	Board Meeting					
23/3	9:30	Noon – Friday 16 <sup>th</sup> March				JCC		
23/3	10:30	Noon – Wednesday 7 <sup>th</sup> February			Management Committee			
<b>April</b>								
17/4	9:00	Noon – Wednesday 11 <sup>th</sup> April	Board Meeting					
<b>May</b>								
TBC	9:00	N/A						Partnership Meeting
18/5	10:30	Noon – Wednesday 11 <sup>th</sup> April		Strategic Officers				
22/5	9:00	Noon – Wednesday 16 <sup>th</sup> May	Board Meeting					
25/5	10:30	Noon – Wednesday 11 <sup>th</sup> April					Audit & Scrutiny Sub	
<b>June</b>								
8/6	10:30	Noon – Wednesday 16 <sup>th</sup> May		Executive Sub				
19/6	9:00	Noon – Wednesday 13 <sup>th</sup> June	Board Meeting					
29/6	9:30	Noon – Friday 22 <sup>nd</sup> June				JCC		
29/6	10:30	Noon – Wednesday 16 <sup>th</sup> May			Management Committee			

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TRAINING SCHEDULE FOR 2017 - 2018



	EXEC SUB COM	AUDIT & SCRUTINY SUB COM
<b>Date and Training Topic</b>	10 <sup>th</sup> November 2017  <b>Workforce/ People Strategy</b> <b>Warehouse &amp; Logistics Strategy</b>  Julie Wray	15 <sup>th</sup> September 2017  <b>Financial Management</b>  Steven Hall
<b>Date and Training Topic</b>	16 <sup>th</sup> March 2018  <b>Commercial &amp; Customer Strategy</b> <b>Procurement Services Strategy</b>  Jo Marshall/ Paul Smith	3 <sup>rd</sup> November 2017  <b>External &amp; Internal Audit</b> <b>Relationship</b>  Carl Tweed
<b>Date and Training Topic</b>	8 <sup>th</sup> June 2018  <b>IT Strategy &amp; Business Change</b> <b>Programme</b>  Gavin Rimmington	16 <sup>th</sup> February 2018  <b>Risk Management</b>  Diana Wright
<b>Date and Training Topic</b>	N/A	25 <sup>th</sup> May 2018  <b>Business Planning</b>  Steven Hall

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