

Your Ref.
Our Ref
Please Reply To Kayley Sykes
Telephone No (01924) 834912
Email kayley.sykes@ypo.co.uk
Date 16 May 2018

Merran McRae - Chief Executive

Town Hall
Wood Street
Wakefield
WF1 2HQ

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

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

Dear Member

YPO AUDIT & SCRUTINY SUB-COMMITTEE – FRIDAY, 25 MAY 2018

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, 25 May 2018 in the YPO Headquarters** to consider the items set out in the agenda attached.

Please note there is a training session prior to the meeting at 10am entitled 'Business Planning'.

Yours sincerely



Merran McRae
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, 25 May 2018

AGENDA

1. Chair's Introduction and Welcome.
2. Acceptance of Apologies for Absence.
3. Members' Declaration of Interest.
4. To note any items which the Chair has agreed to add to the agenda on the grounds of urgency.
5. To approve, as a correct record, the Minutes of the Meeting of the Audit & Scrutiny Sub-Committee held on 16th February 2018. (Pages 1 - 4)
6. External Audit Report. (Pages 5 - 31)
7. Audited Statement of Accounts. (Pages 33 - 72)
8. Audit & Scrutiny Sub Committee Terms of Reference & Work Programme. (Pages 73 - 87)
9. Governance Review. (Pages 89 - 90)
10. Internal Audit Progress. (Pages 91 - 98)
11. Lead Authority SLA Costs. (Pages 99 - 103)
12. Risk Appetite - For Information Only. (Pages 105 - 117)
13. Exclusion of the Public and Press
“That the public and press be excluded from the meeting during consideration of agenda items 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 (Link). (Pages 119 - 124)
15. Procurement Services Strategy. (Pages 125 - 127)
16. Date of the next meeting.
The next meeting is proposed as 2nd November 2018.

YORKSHIRE PURCHASING ORGANISATION**AUDIT & SCRUTINY SUB-COMMITTEE****FRIDAY, 16TH FEBRUARY 2018****Present:** The Chair: Councillor Warburton (Bradford)

Councillors: Cole (Doncaster), Scullion (Calderdale), Mather (Kirklees), Barnard (Barnsley), Vjestica (Rotherham), Waller (York), Dadd (North Yorkshire).

29.	CHAIR'S INTRODUCTION & WELCOME
	Councillor Warburton welcomed all parties to the meeting.
30.	ACCEPTANCE OF APOLOGIES FOR ABSENCE
	Apologies for absence submitted prior to the meeting were accepted on behalf of Councillors Gardiner (Barnsley), Byron (Knowsley), Pillai (Calderdale), Sweeney (Wigan), Nightingale (Doncaster) & Iqbal (Bolton).
31.	MEMBERS DECLARATION OF INTEREST
	No declarations of interest were made.
32.	URGENT ITEMS
	No urgent items were raised by Members.
33.	PREVIOUS MINUTES (AUDIT & SCRUTINY SUB COMMITTEE)
	The minutes of the YPO Audit & Scrutiny Sub-Committee held on 3 rd November 2017 were approved as a correct record.
34.	RISK MANAGEMENT PROCESS
	Members considered a report of the Executive Director (Paul Smith) which detailed the review of the YPO Risk Management Process.
	The Executive Director shared that the Board are looking at future developments and what the high risks and priorities are moving forward.
	Resolved – (1) That the report be noted.
35.	PRE-AUDIT STATEMENT OF ACCOUNTS
	Consideration was given to the report of the Head of Finance which provided Members with the details of the Pre-Audit Statement of Accounts 2017, attached as Appendix 1 and to inform Members of the public notice of the commencement of the audit and public inspection period.
	The report will be submitted to the next meeting of the YPO Management Committee for the information to be noted by members.
	Resolved – (1) That the Pre- Audit Statement of Accounts 2017 are agreed to

	be submitted to External Audit and the public inspection notice to be issued.
36.	INTERNAL AUDIT ANNUAL REPORT 2017
	<p>Consideration was given to the report of the S151 Officer which provided Members with the Internal Audit Annual Report 2017 which details the work undertaken during January – December 2017.</p> <p>Resolved – (1) That the Internal Audit Annual Report 2017 be noted.</p>
37.	DRAFT INTERNAL AUDIT PLAN 2018 - 2020
	<p>Consideration was given to the report of the S151 Officer which provided Members with the Draft Internal Audit Plan 2018 - 2020.</p> <p>The plan is the first three-year audit plan and will be submitted to the next meeting of the YPO Management Committee for formal approval in line with agreed protocols.</p> <p>Resolved – (1) That the draft Annual Audit Plan 2018 - 2020 be noted.</p> <p>(2) That the draft Annual Audit Plan 2018 - 2020 be submitted to YPO Management Committee for formal approval.</p>
38.	ANNUAL GOVERNANCE REVIEW & STATEMENT
	<p>Consideration was given to a report of the Executive Director (Paul Smith), which provided Members with the details of the Annual Governance Statement.</p> <p>Members welcomed the report and thanked the Board of Directors for the pleasing report.</p> <p>Resolved - (1) That the Annual Governance Statement be approved.</p>
39.	STRATEGIC RISK REGISTER
	<p>A report of the Executive Director (Paul Smith) provided details of the Strategic Risk Register for YPO.</p> <p>The Strategic Risk Register explains to Members the risks faced by the organisation including assessment on the level of risk, the controls in place, any additional controls and risk owners.</p> <p>Resolved – (1) That the Strategic Risk Registers for the Organisation be noted.</p>
40.	FRAUD AND BRIBERY RISK ASSESSMENTS
	<p>A report of the Executive Director (Paul Smith) provided details of the Fraud and Bribery Risk Assessments for YPO.</p> <p>Resolved – (1) That the Fraud and Bribery Risk Assessments for the Organisation be noted.</p>

41.	EXCLUSION OF THE PUBLIC AND PRESS
	<p>Resolved – That the public and press be excluded from the meeting during consideration of agenda items 14 to 20 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>
42.	INTERNAL AUDIT ACTION UPDATE (EXEMPT – PARAGRAPH 3)
	<p>Consideration was given to a report which provided an update as to the progress made towards actions resulting from internal audits completed at YPO, as part of the Annual Audit Plan by Wakefield Council's Internal Audit.</p> <p>Resolved – (1) That the progress made in implementing internal audit actions be noted.</p>
43.	FINANCIAL PROCEDURE RULES & STANDING ORDERS RELATING TO CONTRACTS (EXEMPT – PARAGRAPH 3)
	<p>The Executive Director (Paul Smith) presented the Financial Procedure Rules & Standing Orders Relating to Contracts.</p> <p>The Financial Procedure Rules & Standing Orders Relating to Contracts have been reviewed to ensure compliance with the current law. Members were advised of minor changes.</p> <p>Resolved – (1) That the revised Standing Orders for Contracts and Financial Procedure Rules, attached as Appendix 1, be approved and used by YPO.</p> <p>(2) That the Financial Procedure Rules & Standing Orders Relating to Contracts are considered bi-annually moving forward unless there are any material changes.</p>
44.	SLA COSTS FOR FINANCIAL SERVICES FROM WAKEFIELD COUNCIL (EXEMPT – PARAGRAPH 3)
	<p>Consideration was given to the report of the Chief Finance Officer, which provided Members with a breakdown of costs made to the Lead Authority in the 2017 financial year for Finance Services.</p> <p>All services provided by the Lead Authority are provided in accordance with established Service Level Agreements.</p> <p>Resolved – (1) That the report be noted.</p>
45.	IT PROGRAMME UPDATE (EXEMPT – PARAGRAPH 3)
	<p>Consideration was given to the IT Programme Update report which provided Members with an update on the progress of the implementation of the ERP Business Case, and the associated risks.</p> <p>Members raised a number of questions and were satisfied with the responses given by Officers.</p>

	<p>Resolved – (1) That the report be noted.</p>
46.	<p>COMMERCIAL STRATEGY (EXEMPT – PARAGRAPH 3)</p> <p>Consideration was given to a report and presentation given by the Executive Director (Jo Marshall) regarding the Commercial Strategy 2018 – 2020.</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>Resolved – (1) That the report be noted.</p>
47.	<p>STOCK LOSSES (EXEMPT – PARAGRAPH 3)</p> <p>Consideration was given to a report that outlines the stock losses incurred during 2017.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted.</p> <p>Resolved – (1) That the report be noted.</p>
48.	<p>WAREHOUSE & LOGISITICS STRATEGY (EXEMPT – PARAGRAPH 3)</p> <p>Consideration was given to a report & presentation given by the Head of Logistics regarding the Logistics Strategy.</p> <p>This report provided an update on progress made during the last strategy period and outlined the 2018 - 2020 approach. It outlined the challenges faced by logistics in conjunction with the priorities outlined in the Three-Year Strategy.</p> <p>Members raised a number of questions and detailed responses from YPO Officers were accepted. One particular concern was raised about clean emission zones, Officers confirmed the YPO fleet runs on Euro 6 engines which is the currently the most efficient engines. The suitability of the YPO fleet and clean emission zones will continue to remain under review within the Logistics Team.</p> <p>Resolved – (1) That the report be noted.</p>
49.	<p>DATE AND TIME OF NEXT MEETING</p> <p>Resolved – (1) That the next meeting of the YPO Audit & Scrutiny Sub Committee will be held on 25th May 2018.</p>



External Audit Report 31 December 2017

Yorkshire Purchasing Organisation

—

May 2018



Summary for Audit & Scrutiny Sub Committee

Financial statements

This document summarises the key findings in relation to our 2017 external audit at Yorkshire Purchasing Organisation ('the Organisation').

This report focusses on our on-site work which was completed in March 2018 on the Organisation's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6-10.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Organisation's financial statements following the Management Committee meeting on 29 June 2018.

Based on our work, we have raised 6 recommendations. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit.

Value for money

We have completed our risk-based work to consider whether in all significant respects the Organisation has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have assessed that the Organisation has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

See further details on page 15.

Acknowledgements

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

We ask the Audit & Scrutiny Sub Committee to note this report.

Contents

The key contacts in relation to our audit are:

Rashpal Khangura

Director

KPMG LLP (UK)

+44 (0)113 231 3396

rashpal.khangura@kpmg.co.uk

Matthew Moore

Manager

KPMG LLP (UK)

+44 (0)113 231 3663

matthew.moore@kpmg.co.uk

Rachael Whittaker

Assistant Manager

KPMG LLP (UK)

+44 (0)113 231 3851

rachael.whittaker@kpmg.co.uk

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This report is addressed to Yorkshire Purchasing Organisation (the Organisation) and has been prepared for the sole use of the Organisation. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Organisation, who will try to resolve your complaint.

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Organisation's 2017 financial statements. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.



Section one: financial statements

Significant audit risks

Our *External Audit Plan 2017* sets out our assessment of the Organisation’s significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
<p>1. Significant changes in the pension liability due to LGPS Triennial Valuation</p>	<p>Why is this a risk?</p> <p>During the year, the Local Government Pension Scheme for West Yorkshire Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the <i>Local Government Pension Scheme (Administration) Regulations 2013</i>. The Organisation’s share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension liability numbers to be included in the financial statements for 2017 will be based on the output of the triennial valuation rolled forward to 31 December 2017. For 2018 and 2019 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by West Yorkshire Pension Authority, who administer the Pension Fund.</p> <p>Our work to address this risk</p> <p>We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls. We found that there was no management review of actuarial assumptions.</p> <p>We have also substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund auditors to gain assurance over the pension figures.</p>

Considerations required by professional standards

Fraud risk of revenue recognition

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.

We considered the incentives and opportunities to misstate revenue and focus our testing in these areas. We carried out appropriate controls testing and substantive procedures to address the risk. This includes:

- Attendance at stocktakes;
- Testing of the bad debt provision and aged debt disclosures;
- Review of the reconciliation of invoiced turnover between the general ledger and stock systems;
- Testing income received in January 2018 has been accounted for in the correct financial year; and
- Testing a sample of contract rebates to supporting evidence.

Management override of controls

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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.



Section one: financial statements

Judgements

We have considered the level of prudence within key judgements in your 2017 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2017	2016	Commentary
Accrued Income	3	3	Balance £5,078k in 2017 (PY: £4,359k). As at the time of the audit, 17% of accrued income had not yet been invoiced due to timing differences.
Accruals	3	3	Balance £2,770k in 2017 (PY: £1,850k). The Organisation have made appropriate estimates of the costs that have been incurred but not charged.
Stock Obsolescence Provision	5	4	Balance £100k in 2017 (PY: £223k). The stock obsolescence provision provided in the statements is reasonable however following the audit procedures we performed on the stock lines, we believe the provision is towards the optimistic end of the range.
Land and Buildings	3	3	Balance £9.0m in 2017 (PY: £9.1m). The valuation of the YPO buildings is balanced. Valuations are carried out by an independent, objective third party.
Pensions	3	Audit difference	Our pensions specialists have confirmed that overall the assumptions that the Actuaries have used in their calculations are balanced. Note that in the prior year this resulted in an audit difference.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Organisation's 2017 financial statements following approval of the Statement of Accounts by the Management Committee on 29 June 2018.

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 4 for more information on materiality) level for this year's audit was set at £2 million. Audit differences below £100,000 are not considered significant.

We did not identify any material misstatements.

We did not identify any unadjusted misstatements.

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 Organisations will be addressing these where significant.

Annual governance statement

We have reviewed the Organisation's 2017 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Organisation's 2017 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Organisation.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Segregation of Duties in the Journals Process

- Evidence of review of journals by the Financial Controller could not be provided for a number of journals selected in our testing.
- Although there are limits set up in the system for individuals writing off sales invoices, these journals are not required to be authorised or reviewed and therefore there is a lack of segregation of duties.

Invoiced Turnover Reconciliation

- We found no issues with the daily invoice file reconciliation between DAWN and NAVISION, however there was an unreconciled difference of £259k on the year end invoiced turnover reconciliation between the two systems.

Other Reconciliations

- Although payroll and bank reconciliations were completed, issues were identified with the timeliness of preparation and review of reconciliations tested.

Stock Provision

- The Organisation did not fully implement the recommendation to follow a robust process for calculating the stock provision in the year.

DAWN System Passwords

- A complexity requirement had been set for the DAWN stock system in the year but was found not to be enforced.

Declarations of Interest

- Directors had not completed declarations of interest in the past 12 months.

Further detail and associated recommendations can be found in Appendix 1.

Prior year recommendations

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

The Organisation has implemented the majority of the recommendations in our 2016 ISA260 Report. One recommendation in relation to the stock provision has been partially implemented.

Appendix 2 provides further details.

Accounts production and audit process

Auditing standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Organisation's accounting practices and financial reporting.

Completeness of draft accounts

We received a complete set of draft accounts on 6 March 2018. This was in line with agreed timings.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2017* ("Prepared by Client" request) in March 2018 which outlines our documentation request. This helps the Organisation to provide audit evidence in line with our expectations.

The working papers were mostly in line with the PBC and where additional papers were requested these were produced in a timely manner.

Response to audit queries

Officers responded promptly to our audit queries, which was in line with our expectations.

The use of KPMG Central

We will work with the finance team to introduce KPMG Central for 2018. This is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Organisation and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authorities to efficiently share requested information.

Although we have had no issues in sharing data this year, experience from other clients has shown that the use of KPMG Central has benefits for both parties allowing us both to keep track of uploaded documents.



Section one: financial statements

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Organisation's 2017 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 2017, 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 4 in accordance with ISA 260.

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 Management 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 2017 financial statements.

Audit Fees

Our fee for the audit was £23,135 plus VAT (£23,135 in 2016). This fee was in line with that highlighted within our audit plan.

We have not completed any non-audit work at the YPO during the year.

Section two

Value for money



Our 2017 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 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.

VFM conclusion

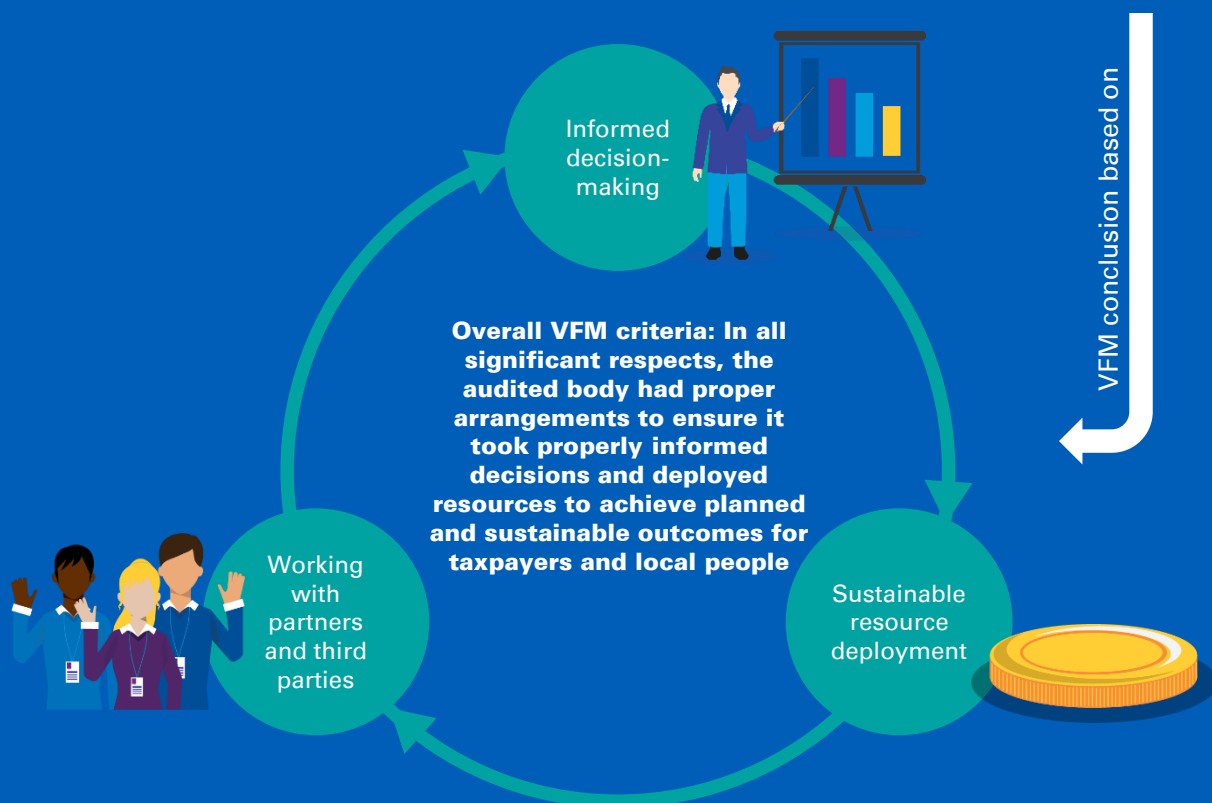
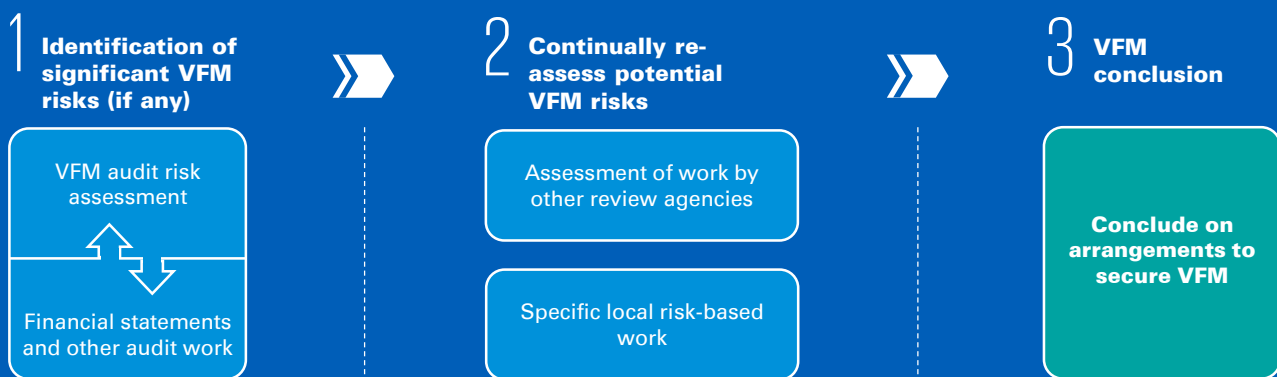
Our VFM assessment considers whether the Organisation had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes.

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

Note that we are not required to provide a conclusion on the Organisations arrangements to ensure it properly informed decisions and deployed resources to achieve planned outcomes and sustainable outcomes. However management have requested such an assessment.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which 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.'

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



Section two: value for money

The table below summarises our overall assessment of VFM identified against the three sub-criteria.

VFM assessment summary			
	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
Overall summary	✓	✓	✓

We are not required to provide a conclusion on the Organisations arrangements to ensure it properly informed decisions and deployed resources to achieve planned outcomes. However management have requested such an assessment.

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.

Further details on the work done and our assessment are provided below.

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; and
- Considered the results of relevant work by the Organisation and other review agencies in relation to these risk areas.

Key Findings

We concluded that we did not need to carry out additional work as no residual audit risks were identified during our risk assessment.

A close-up, shallow depth-of-field photograph of a stack of books on a wooden surface. The books are stacked vertically, with the top one showing a red cover. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and the texture of the wooden table.

Appendices

Appendix 1

Key issues and recommendations

Our audit work on the Organisation’s 2017 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Organisation should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.



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.



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.



Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2017.

2017 recommendations summary	
Priority	Total raised for 2017
High	0
Medium	5
Low	1
Total	6

Medium
priority

1. Timely Review of Journals

Segregation of duties is not fully operational in the journals process and there is no formal independent authorisation of journals posted to the general ledger.

There is a risk that an incorrect journal can be posted whether intentionally or by mistake without being detected. An individual can prepare and post their own journal without requiring authorisation which increased the risk of fraud.

Recommendation

Review of all journals is documented in a timely manner to ensure segregation of duties in the journal process.

Management Response

Accepted

Whilst the current ledger system doesn't allow for journals to be approved before posting we do have a process where all general ledger journals are printed and physically signed by the Financial Controller. There may be instances where there is a delay in this physical sign off but we believe the controls in place during the month end accounts preparation and variance analysis should counter this for journals of a significant value. Going forward the FC has introduced weekly reminders to review and sign off journals posted and when we move to our new ERP system there is the functionality to hold a journal for review prior to posting.

Owner

Matt Hirst

Deadline

In place

Medium
priority

2. Sales Credit Journal Authorisation

The sales ledger team have appropriate authorisation limits in place for writing off sales on the general ledger system. However, there is no approval or review of this process.

There is a risk that sales are incorrectly credited whether intentionally or by mistake.

Recommendation

Segregation of duties is introduced into the process for writing off sales invoices.

Management Response

Accepted

Each sales ledger team member has a limit in regards to the value of a customer's balance they can write off for rounding differences, doubtful debt etc. A review will be carried out by the sales ledger team manager on a monthly basis for all write offs performed by the sales ledger team. In regards to customer credits we have also introduced a review of all customer credit notes raised, this will be undertaken by our Sales Manager also on a monthly basis.

Owner

Steven Hall / Janine Hodge

Deadline

In place.

Medium
priority

3. DAWN to NAVISION Reconciliation

The monthly reconciliation between sales in the stock system (DAWN) and the general ledger system (NAVISION) had unreconciled differences of £259k at year end.

There is a risk that management information from DAWN is not complete.

Recommendation

The DAWN to NAVISION reconciliation is reviewed to identify the reason for invoiced turnover per the two systems not balancing.

Management Response

Accepted

Ongoing review as to the reasons for the variances between the systems.

Owner

Matt Hirst

Deadline

Ongoing

Low
priority

4. Timely Preparation and Review of Reconciliations

We found one occasion in which the bank reconciliation was not signed as reviewed. There was another instance where the payroll creditors reconciliation had not been prepared in a timely manner.

There is a risk that any errors are not identified and corrected on a timely basis.

Recommendation

We recommend that reconciliations are prepared and reviewed on a timely basis to ensure any unreconciled differences can be followed up efficiently.

Management Response

Accepted

The accounts team and Financial Controller are now utilising the SharePoint version history tracker so that when the monthly reconciliations are completed the FC is notified and then once reviewed the file can be checked back in with comments to evidence the review – the different versions and any comments are visible for audit purposes. To ensure these are completed in a timely manner the FC has also set up monthly calendar appointments for the reviews.

Owner

Matt Hirst (FC)

Deadline

In place

Medium
priority

5. Password Complexity Requirements Not In Use

Although the option for complex passwords to the windows network access was selected, our testing found that passwords of any complexity level would be accepted.

There is a risk that unauthorised access to financial systems could be obtained from the use of weak passwords.

Recommendation

The Organisation needs to ensure complexity requirements are enforced.

Management Response

Accepted

At the time KPMG were in, they actually uncovered a flaw in our systems.

Complexity was enabled, however, another change prevented its full functionality.

This has been fixed and now complexity requirements are fully in place.

This was communicated at the time to KPMG

Owner

Alan Thacker

Deadline

In place

Medium
priority

6. Annual Declarations of Interest

The Directors had not made declaration of interests in 2017.

There is a risk of undisclosed related party transactions and lack of safeguards in place where relationships do exist. This is specifically important with the Limited Companies having the same Directors.

Recommendation

Directors are required to sign an annual declaration of interests.

Management Response

Accepted

A new process will be put in place for all staff members to submit an annual DOI – even if a nil return. We will use the SharePoint workflow functionality to allow this to be done in an efficient way.

Owner

Matt Hirst

Deadline

31 December 2018

Appendix 2

Follow-up of prior year recommendations

In the previous year, we raised three recommendations which we reported in our *External Audit Report 2016 (ISA 260)*. The Organisation has not fully implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Organisation.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2017 work, and we have obtained the recommendation’s status to date. We have also obtained Management’s assessment of each outstanding recommendation.

Below is a summary of the prior year’s recommendations.

2016 recommendations status summary			
Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	0
Medium	2	2	0
Low	1	0	1
Total	3	2	1



1. Pensions Assumptions

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.

Recommendation

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.

Management original response

From the 2017 audit, onwards, we will provide KPMG with an early sight of the pension assumptions as provided by the actuary.

Owner

Matthew Hirst

Original deadline

31 January 2018

KPMG’s April 2018 assessment

Fully implemented

The actuarial report and assumptions were provided to KPMG on 15 January 2018.

Medium
priority

2. Audit sub-committee member attendance

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.

Recommendation

Remind sub-committee members of the importance of attendance at all meetings (or arranging a substitute where this is not possible.)

Management original response

This issue has been addressed and in future, a combined Audit and Scrutiny Committee will meet. The first meeting is on 19th May 2017.

KPMG's April 2018 assessment

Fully implemented

The Audit and Scrutiny Committee has now replaced the separate Audit and Scrutiny sub-committees.

Low
priority

3. Stock obsolescence provision

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.

Recommendation

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.

Management original response

From the 2017 audit, onwards, we will review the robustness of the calculation of the provision for obsolete stock and use aged stock reports.

Owner

Matthew Hirst

Original deadline

31 January 2018

KPMG's April 2018 assessment

Partially implemented

Analysis has been performed over aged stock reports. However, this has not informed the obsolete stock provision as a general provision has been made.

Management's April 2018 response

We have introduced a more detailed analysis of our stock holding at the year-end using the aged stock reports available and going forward this will be used to calculate the provision in the accounts.

Appendix 3

Audit differences

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 & Scrutiny 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.

A number of minor amendments focused on presentational improvements have also been made to the 2017 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

We have identified no audit differences that have been adjusted by the Organisation.

Unadjusted audit differences

We have not identified any unadjusted audit differences.

Materiality and reporting of audit differences

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 2017, presented to you in December 2017.

Materiality for the Organisation's accounts was set at £2million which equates to around 1.8% percent of gross turnover. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit & Scrutiny 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 & Scrutiny 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 Committee to assist it in fulfilling its governance responsibilities.

Appendix 5

Declaration of independence and objectivity

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 Committee & Scrutiny 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 LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Yorkshire Purchasing Organisation for the financial year ending 31 December 2017, 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.



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REPORT TO

AUDIT & SCRUTINY SUB COMMITTEE

25TH MAY 2018

SUBJECT: AUDITED STATEMENT OF ACCOUNTS 2017

REPORT OF: HEAD OF FINANCE AND FINANCIAL CONTROLLER

1 PURPOSE OF REPORT

1.1 To present the audited Statement of Accounts for 2017.

2 SUMMARY

2.1 The Statement of Accounts 2017 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 each year going forward.

3.2 The pre-audit Statement of Accounts 2017 was approved for external audit at the Audit Sub Committee on 16th February 2018.

3.3 The external audit commenced on site from the 12th March 2018 until 29th March 2018. All follow up questions and issues raised were concluded on the 4th May 2018.

- 3.4 All recommendations from the auditors were considered and the accounts amended where seen 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 be approved for 2017.

5 WHAT DOES THIS MEAN FOR YPO STAKEHOLDERS?

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

6. OUTCOME AND SUSTAINABILITY

- 6.1 An unqualified audit opinion will be a good outcome and will acknowledge 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 will be £23k and that amount has been included in the budget for 2018.

8. LEGAL IMPLICATIONS

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

9. EQUALITY IMPLICATIONS / EQUALITY OF OPPORTUNITY IMPLICATIONS

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

10. RISK ASSESSMENT

- 10.1 There is no risk associated with this report.

SERVICE DIRECTOR: PAUL SMITH, EXECUTIVE DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834969

E-mail address: paul.smith@ypo.co.uk

**CONTACT OFFICERS: STEVEN HALL, HEAD OF FINANCE / MATTHEW HIRST,
FINANCIAL CONTROLLER**

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821775 / 834967

E-mail addresses: Steven.hall@ypo.co.uk Matt.hirst@ypo.co.uk

APPENDIX:

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

Appendix 2 – Audited Statement of Accounts 2017

APPENDIX 1**2017 Statement of Accounts version tracker**

The below table records all changes made to the 2017 Statement of Accounts from the original submission to February's Audit Sub-committee to the audited version to be submitted to May'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 asset position within the balance sheet.

Section / Note	Changes made	Financial impact
Note 8. Plant, Property and Equipment.	Slight changes made to the presentation of the revaluation impact on the Land & Buildings Net Book Value.	nil
Note 8. Plant, Property and Equipment.	The net book value of PPE as at 1.1.16 had not been rolled forward. This has now been corrected.	nil
Note 16. Amounts reported for decision making and planning.	The year headers in the second table had not been rolled forward. This has now been corrected.	nil
Note 7. Medium term financial strategies.	The note makes reference to the MTFS but didn't provide commentary around the strategy. A more detailed commentary of the MTFS has been added.	nil
Various.	Various rounding differences had been highlighted during the audit. These have not been corrected due to the immateriality of the values.	nil

YORKSHIRE PURCHASING ORGANISATION



**AUDITED
STATEMENT
OF ACCOUNTS
2017**

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 2017. The Narrative Statement provides a guide to the most significant matters in the financial statements.

The Yorkshire Purchasing Organisation (YPO) was established in 1974 to fulfil the supplies requirements of a number of local authorities. The enabling act 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 nine associate member authorities of YPO as of 31st December 2017, although the Organisation trades extensively outside the membership area. Management of the organisation reports periodically to a Management Committee of two elected members from each founder member authority.

The membership consists of:

Founder Member Authorities

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

Associate Member Authorities

first year of membership

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

Narrative Statement by the Managing Director

London Borough of Hackney	2016
London Borough of Waltham Forest	2016
Liverpool City Council	2016
Merseyside Fire and Rescue Service	2016
Merseytravel	2016
Oldham Council	2016
Salford City Council	2016
Sefton Borough Council	2016
Solihull Metropolitan Borough Council	2016
Wyre Council	2016
Allerdale Borough Council	2017
Devon County Council	2017
London Borough of Camden	2017
London Borough of Haringey	2017
London Borough of Westminster	2017
Pendle Borough Council	2017

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

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

2. ACCOUNTABILITY AND FINANCIAL REPORTING

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

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

We have continued to categorise our Reserves as "Usable" and "Unusable" in line with the 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 2017 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 Organisation's future operations.

The Statement of Responsibilities for the Statement of Accounts sets out the respective responsibilities of the organisation and the Chief Finance Officer at WMDC for the Statement of Accounts.

Narrative Statement by the Managing Director

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

4. FINANCIAL SUMMARY

The 2017 budget approved in November 2016 was for a turnover of £118.75m and a surplus of £8.463m, excluding any income for pensions interest or expenditure financed from earmarked reserves.

Invoiced sales for the year are £110.965m and the reported surplus on trading of £7.492m is under the budget set of £8.463m by £0.971m, 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 4.5% 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 £7.8m 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 £5.3m were under the budget of £5.39m, mainly due to emergency services framework contributions being lower than expected.

Operating costs for 2017 were £30.800m, £0.306m over budget. A significant contribution for the adverse variance was an increase in our employer pension contributions of 2.5% from April resulting in additional costs of around £0.240m. There has also been high distribution costs due to a greater number of consignments being carried out by third party contractors due to our Logistics team being unable to fully utilise our own fleet resources through staff sickness. Added to this have been higher than expected software license costs due an increase in rates from our suppliers. Helping to offset these have been savings with facilities improvements and a general vacancy saving across the organisation within salaried staff.

In 2017 £0.529m of expenditure was funded through the internal earmarked reserve funds. This was planned expenditure approved at the November 2016 Management Committee.

Trade debtors are at £8.9m, £1.5m greater than in 2016. There are no specific or significant causes of this, we are have just seen a general increase in our average debtor days of 5.5 to 29.5 days in 2017. This is still within our standard credit terms and the level of debt written off has also remained in line with 2016 at less than £0.010m.

The net assets of the organisation as at 31st December 2017 are £14.6m, an increase on £11.2m in last years accounts. Net current assets have remained stable and are at a similar position to that of last year with slight decreases in cash balances. It is a reduction in our long term liabilities that has contributed to the increase in our net worth and this is thanks to a reduction in the net pension liability of £4.3m due to asset returns in the accounting period being higher than expected.

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 no 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.

An agreed dividend distribution of £7.928m for the trading year 2016 was distributed in September 2017. This distribution, as last year, included all customers.

No acquisitions or discontinuation of operations were made during 2017.

Narrative Statement by the Managing Director

5. RETIREMENT BENEFITS

The value of the organisation's retirement benefits liability as at 31 December 2017 was £25.6 million (31 December 2016 £29.9 million). This decrease is due to the return on the funds assets within the accounting period being higher than expected.

The employer's contribution rate was 11.9% from Jan to Mar and 14.4% from Apr to Dec 2017. (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.

6. SIGNIFICANT MATTERS

The budget submission for the 2017 financial year was given approval by the Management Committee at the meeting in November 2016. The budget was built on assumptions of growth in core business and keeping the Operating Costs to Sales ratio at 24.6% which has gone up to 26.5% in 2017's performance.

A dividend distribution of £7.928m declared in respect of the 2016 trading year, was distributed in September 2017. This included a non cash loyalty bonus of £1.4m 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 2017 between the above companies are classed as related party transactions.

7. MEDIUM TERM FINANCIAL STRATEGIES

The 2018 Budget was approved by the Management Committee in November 2017 as the first year of our new three year strategy. This strategy focuses on relevance and the importance of YPO remaining relevant not only to their owners and various customer groups but also to an ever changing marketplace. This will ensure we remain competitive whilst continuing to deliver value for money to all public sector organisations when procuring goods and services.

A medium term financial strategy has also been drawn up alongside the 2018 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.

Within the medium term financial strategy we have prudently estimated that our sales demand remains at current volumes plus inflation over the planning period. This along with an expected growth within our rebates business and a continued focus on efficiencies within our overheads should see net profits increased by 2022.

Simon Hill
Managing Director

Statement of Responsibilities

THE ORGANISATION'S RESPONSIBILITIES

The Organisation is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Organisation that officer is the Chief Finance Officer of 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 CHIEF FINANCE OFFICER

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

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

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

The Chief Finance Officer has also:

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

CHIEF FINANCE OFFICER

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Yorkshire Purchasing Organisation at 31st December 2017 and its Income and Expenditure for the year then ended.

.....

NEIL WARREN
Chief Finance Officer

APPROVAL OF THE ACCOUNTS

As the Chair of the body considering the Yorkshire Purchasing Organisation's Statement of Accounts for 2017, I certify that the Accounts have been approved by the Management Committee and are authorised for issue.

.....

Cllr LES SHAW
Chairperson YPO Management Committee

Auditors Opinion

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.

2016	£000's										
	Usable Reserves			Unusable 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)	(112)	0	32,690	(5,925)	26,765	
Movement in Reserves during 2016											
Surplus or (Deficit) on Operations	(4,039)							(4,039)	0	(4,039)	
Other Comprehensive Income					(11,513)		0	0	(11,513)	(11,513)	
Total Comprehensive Expenditure and Income	(4,039)	0	0	0	(11,513)	0	0	(4,039)	(11,513)	(15,552)	
Adjustments between accounting basis and funding basis under regulation											
Net Increase / (Decrease) before transfer to Earmarked Reserves	(4,039)	0	0	0	(11,513)	0	0	(4,039)	(11,513)	(15,552)	
Transfer (to) / from Earmarked Reserves	2,556		(533)	(470)	(1,555)	1	0	2,023	(2,023)	0	
Increase / (Decrease) in Movement in Year	(1,484)	0	(533)	(470)	(13,068)	1	0	(2,016)	(13,536)	(15,552)	
Balance as at 31 December 2016	28,818	85	1,770	10,545	(29,895)	(111)	0	30,674	(19,461)	11,213	13

2017	£000's										
	Usable Reserves			Unusable 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 2016	28,818	85	1,770	10,545	(29,895)	(111)	0	30,674	(19,461)	11,213	
Movement in Reserves during 2017											
Surplus or (Deficit) on Operations	(3,593)							(3,593)	0	(3,593)	
Other Comprehensive Income				0	7,016		0	0	7,016	7,016	
Total Comprehensive Expenditure and Income	(3,593)	0	0	0	7,016	0	0	(3,593)	7,016	3,423	
Adjustments between accounting basis and funding basis under regulation				10				0	10	10	
Net Increase / (Decrease) before transfer to Earmarked Reserves	(3,593)	0	0	10	7,016	0	0	(3,593)	7,026	3,433	
Transfer (to) / from Earmarked Reserves	3,036		(74)	(270)	(2,692)	0	0	2,962	(2,962)	0	
Increase / (Decrease) in Movement in Year	(557)	0	(74)	(259)	4,324	0	0	(631)	4,065	3,433	
Balance as at 31 December 2017	28,261	85	1,696	10,285	(25,571)	(111)	0	30,042	(15,396)	14,646	

Comprehensive Income and Expenditure Account

2016		2017
<u>£'000</u>		<u>£'000</u> Note
113,904	<i>Invoiced Turnover</i>	110,965 1(b),6
<u>(83,926)</u>	<i>Cost of Sales</i>	<u>(80,316)</u>
29,978	<i>Gross Margin</i>	30,649
142	Discounts	128
4,335	Rebates	5,299 1(b),6
2,905	Other Income	2,216 1(b),6
<u>37,361</u>	<i>Gross Surplus</i>	<u>38,292</u>
	<i>Operating Expenses</i>	
(17,705)	Employees	(18,001)
(1,115)	Premises	(1,224)
(6,994)	Supplies and Services	(6,850)
(4,583)	Transport	(4,608)
(102)	S.L.A. Costs	(127)
(143)	Financial and Miscellaneous	(267)
(475)	Depreciation and revaluation increase/(decrease)	(270) 1(e),8
(962)	Pension service gain(cost) net of charges made to the general fund	(1,909) 1(h),7
<u>(32,079)</u>	<i>Net Operating Expenditure</i>	<u>(33,256)</u>
<u>5,282</u>	<i>Surplus/(deficit) on trading operations</i>	<u>5,036</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>	
(593)	Pensions Interest Cost and Expected Return on Pension Assets	(783) 1(h),7
70	Interest Receivable	17
(8,798)	Dividend paid	(7,864)
<u>(9,321)</u>		<u>(8,629)</u>
<u>(4,039)</u>	<i>Surplus/(Deficit) on provision of service</i>	<u>(3,593)</u>
	<i>Other Comprehensive income and expenditure</i>	
(11,513)	Actuarial gains / (losses) on pension assets / liabilities	7,016
0	Gains / (losses) on revaluations of PPE and depreciation	0
<u>(11,513)</u>		<u>7,016</u>
<u>(15,552)</u>	<i>Total comprehensive Income and Expenditure</i>	<u>3,423</u>

BALANCE SHEET

The Balance Sheet shows the value as at 31st December 2017 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 2016 <u>£'000</u>		31st Dec 2017 <u>£'000</u>	<u>Note</u>
ASSETS AND LIABILITIES			
Long term Assets			
Property, Plant and Equipment			
9,058	Land and Buildings	9,000	1(e),8
784	Vehicles, Furniture & Equipment	612	1(e),8
<u>30</u>	Intangible Assets	<u>0</u>	1(e),8
<u>9,872</u>	Total Long Term Assets	<u>9,612</u>	
Current Assets			
12,213	Inventories	12,749	1(m),9
12,353	Short term debtors	14,654	1(u),10
<u>14,214</u>	Cash and cash equivalents	<u>11,183</u>	
<u>38,780</u>	Total Current Assets	<u>38,587</u>	
Current Liabilities			
<u>(7,543)</u>	Short term creditors	<u>(7,982)</u>	1(v),11
<u>(7,543)</u>	Total Current Liabilities	<u>(7,982)</u>	
<u>31,236</u>	Net Current Assets	<u>30,605</u>	
Long term Liabilities			
<u>(29,895)</u>	Liability relating to Defined Benefit Pension Scheme	<u>(25,571)</u>	1(h),7
<u>11,213</u>	Net Assets	<u>14,646</u>	
Financed by:			
Usable Reserves			
28,818	General Fund	28,261	
85	Usable Capital Receipts Reserve	85	1(g),13
1,770	Internal Investment reserve	1,696	1(g),13
Unusable Reserves			
10,545	Joint Committee Capital Adjustment Account	10,285	1(g),13
<u>(29,895)</u>	Pension Reserve	<u>(25,571)</u>	1(h),7,13
<u>(111)</u>	Earmarked Accumulated Absences Account	<u>(111)</u>	1(g),13
0	Revaluation Reserve	0	1(g),13
<u>11,213</u>	Total Reserves	<u>14,646</u>	

CASH FLOW STATEMENT

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

2016		2017
£'000		£'000
(4,039)	Net surplus/(deficit) on the provision of service	(3,593)
	Adjustment to the net surplus/(deficit) for non cash movements	
475	Depreciation and revaluation increase/(decrease)	270
331	(Increase)/Decrease in Inventories	(537)
(526)	(Increase)/Decrease in Debtors	(2,301)
1,555	(Increase)/Decrease in Pension Liability	2,692
(813)	Increase/(Decrease) in Creditors	439
(1,690)	Redemption of loyalty vouchers	(1,212)
(668)		(650)
	Adjustments for items included in the net surplus/(deficit) that are financing/investing activities	
8,798	Proceeds from sale of PPE	7,864
8,798	Dividend payment	7,864
4,091	Net cash flows from operating activities	3,621
	Investing Activities	
(6)	Purchase of PPE	0
0	Proceeds from Sale of PPE	0
(6)		0
	Financing Activities	
(7,108)	Dividends paid to Members	(6,651)
(7,108)		(6,651)
(3,023)	Net Increase/(Decrease) in Cash and Cash Equivalents	(3,031)
17,237	Cash and Cash Equivalents at the beginning of the reporting period	14,214
14,214	Cash and Cash Equivalents at the end of the reporting period	11,183

Note on operating activities

	The cash flows from operating activities include the following items	
70	Interest Receivable	17
70		17

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 2016/17 and Service Reporting Code of Practice 2016/17, 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

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 15th December 2017, 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	2017
41 Industrial Park	44 years
Flanshaw Way	40 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

Notes to the Core Financial Statements

g. RESERVES

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

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

h. EMPLOYEE BENEFITS

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

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits (e.g. cars) for current employees and are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at 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 2.5% on funded liabilities and 2.5% 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.

Notes to the Core Financial Statements

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.

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 2017.

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).

Notes to the Core Financial Statements

g. 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.

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 2016/17 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 2018 Statement of Accounts.

Notes to the Core Financial Statements

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.

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 £2.241m.

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 £200K.

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 2017 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 2017 was £110.965m, £7.8m below the budget for the year and down on last year by £2.9m. A reduction in sales across most selling categories has contributed to this with Directs Furniture and School supplies the largest adverse variance against budget.

Notes to the Core Financial Statements

An additional £0.172m of catalogue contribution income has been taken in the year due to an under accrual of expected income in the 2016 year end accounts.

An increase in Employer's pension contribution rates from April 2017, up to 14.4% from 11.9% resulted in additional expenditure of £0.240m in the year.

An agreed dividend distribution of £7.928m for the trading year 2016 was distributed in September 2017. This distribution included all customers. As at the 31st December 2017 there was a balance of £173K 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 2017 was 11.9% and from April to December 2017 14.4%. Employees contributions in 2017 were between 5.5% and 12.5% depending on salary.

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

Transactions relating to post - employment benefits

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Statement of Movement in Reserves Statement during the year.

	Funded	Unfunded	Total	Funded	Unfunded	Total
	2016 £'000	2016 £'000	2016 £'000	2017 £'000	2017 £'000	2017 £'000
Comprehensive Income and Expenditure Account						
Cost of Service						
Current Service Cost	2,511	0	2,511	3,662	0	3,662
Past Service (Gain)/Cost	0	0	0	20	0	20
Curtailment (Gain)/Loss		0	0		0	0
Financing and investment income and Expenditure						
Net interest Expense	561	32	593	758	25	783
	3,072	32	3,104	4,440	25	4,465
Total Post Employment Benefit Charged to the surplus or Deficit on the Provision of Services						
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability						
Return on plan assets (gains)/losses	(11,444)	0	(11,444)	(7,387)	0	(7,387)
Actuarial (Gains) and losses-demographic assumptions	0	0	0	(3,311)	(22)	(3,333)
Actuarial (Gains) and losses-experience	(750)	(16)	(766)	(2,131)	(7)	(2,138)
Actuarial (Gains) and losses-financial assumptions	23,618	105	23,723	5,827	15	5,842
	14,496	121	14,617	(2,562)	11	(2,551)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Movement in Reserves Statement						
Reversal of net charges made to the comprehensive Income and Expenditure account for post employment benefits in accordance with the Code	(3,072)	(32)	(3,104)	(4,440)	(25)	(4,465)
Actual amount charged against the General Fund balance for pensions in the year:						
- employer's contributions to the pension scheme	1,485		1,485	1,710		1,710
-retirement benefits payable to pensioners		64	64		63	63
Total Charge against the General fund	(1,587)	32	(1,555)	(2,730)	38	(2,692)

Notes to the Core Financial Statements

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

	Males		Females	
	2016	2017	2016	2017
Rating to base table	0	0	0	0
Scaling to base table rates (Current)	105%	100%	100%	90%
Scaling to base table rates (Future)	-	115%	-	90%
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)	22.7	22.1	25.6	25.2
Future lifetime from age 65 (currently aged 45)	24.9	23	28	27

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	
	2016	2017	2016	2017
	£000s	£000s	£000s	£000s
Pension Assets and Liabilities				
Recognised in the Balance Sheet				
Fair value of assets	85,381	94,471	0	0
Present value of the defined benefit obligation	(114,302)	(119,120)	(974)	(922)
Net liability arising from defined benefit obligation	(28,921)	(24,649)	(974)	(922)

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.

	2016 £'000	2017 £'000
Balance at 1st January	71,953	85,381
Interest income	2,651	2,298
Remeasurement gains/ (losses) on assets	11,444	7,387
Employer contributions	1,485	1,710
Contributions by scheme participants	811	834
Benefits paid	(2,963)	(3,139)
Balance at 31st December	85,381	94,471

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

	Funded Liabilities		Unfunded Liabilities	
	2016	2017	2016	2017
	£'000	£'000	£'000	£'000
Balance at 1st January	(87,863)	(114,302)	(917)	(974)
Current Service Cost	(2,511)	(3,662)		
Interest Cost	(3,212)	(3,056)	(32)	(25)
Contributions by scheme participants	(811)	(834)		
Remeasurement gains and (losses)				
<i>Actuarial gains and (losses) - demographic assumptions</i>	0	3,311		22
<i>Actuarial gains and (losses) - financial assumptions</i>	(23,618)	(5,827)	(105)	(15)
<i>Actuarial gains and (losses) - experience</i>	750	2,131	16	7
Benefits paid	2,963	3,139	64	63
Past service costs and curtailments	0	(20)		
Balance at 31st December	(114,302)	(119,120)	(974)	(922)

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	
	2016	2017
Equity investments	76.00%	77.30%
Property	4.40%	4.50%
Bonds	14.50%	13.10%
Other assets *	5.10%	5.10%
TOTAL	100.0%	100.0%

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

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels. The scheme has been assessed by Hewitt Associates Limited, an independent firm of actuaries. Estimates for the fund have been based on the latest full valuation of the funded scheme as at the 31st March 2016 and the unfunded scheme as at 31st December 2017.

	Funded element		Unfunded element	
	2016	2017	2016	2017
Mortality assumptions				
Longevity at 65 for future pensioners				
Men	24.9 years	23.0 years		
Women	28.0 years	27.0 years		
Longevity at 65 for current pensioners				
Men	22.7 years	22.1 years	22.7 years	22.1 years
Women	25.6 years	25.2 years	25.6 years	25.2 years
Rate of Inflation (RPI)	3.20%	3.30%	3.20%	3.30%
Rate of Inflation (CPI)	2.10%	2.20%	2.10%	2.20%
Rate of Increase in Salaries	3.60%	3.45%	-	-
Rate of Increase in Deferred Pensions	2.10%	2.20%	-	-
Rate of Increase in Pensions	2.10%	2.20%	2.10%	2.20%
Rate for discounting scheme liabilities	2.70%	2.50%	2.70%	2.50%
Take-up of option to convert annual pension into retirement lump sum	75.00%	75.00%		

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)	3,719	(3,688)
Rate of increase in salaries (+ or - 0.1%)	576	(571)
Rate of increase in pensions (+ or - 0.1%)	1,701	(1,676)
Rate for discounting scheme liabilities (+ or - 0.1%)	(2,241)	2,284

Increase in Assumption £000	Decrease in Assumption £000
3,719	(3,688)
576	(571)
1,701	(1,676)
(2,241)	2,284

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 £25,571k 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 2018 are £1.828m. In addition, contributions towards the unfunded obligations will be required. Expected contributions for the discretionary benefits in the year to 31st December 2018 are £0.065m.

The weighted average duration of the defined benefit obligation for scheme members is 19.0 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 2017, the Organisation held the following assets

Property plant and equipment were predominantly represented by 43 Delivery vehicles (2016 = 48), 93 Container units (2016 = 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 2016).

Property Plant and Equipment

Cost or valuation

Opening balance 1 January 2017
 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 2017

Depreciation and impairments

Opening balance 1 January 2017
 Charge for depreciation 2017
 Disposals
 Impairment
 Acc depreciation write out to gross carrying amount
 Depreciation written out to I&E

At 31 December 2017

Net Book Value at 31 December 2017

Net Book Value at 1 January 2017

	Land & Buildings £'000	Furniture & Equipment £'000	Computers £'000	Vehicles £'000	TOTAL £'000
Opening balance 1 January 2017	9,058	738	925	3,336	14,057
Acc depreciation write out to gross carrying amount				-	0
Revaluation increase / (decrease) recognised in the Revaluation Reserve		-	-	-	0
Revaluation increase / (decrease) recognised in the I&E	(58)	-	-	-	(58)
Additions	0	0	0	-	0
Impairment					
Disposals					
At 31 December 2017	9,000	738	925	3,336	13,999
Depreciation and impairments					
Opening balance 1 January 2017	0	436	864	2,915	4,215
Charge for depreciation 2017	157	42	17	112	329
Disposals		-	-	-	0
Impairment		-	-	-	0
Acc depreciation write out to gross carrying amount					0
Depreciation written out to I&E	(157)	-	-	-	(157)
At 31 December 2017	0	478	881	3,028	4,387
Net Book Value at 31 December 2017	9,000	260	44	308	9,612
Net Book Value at 1 January 2017	9,058	302	61	421	9,842

2016 Comparative

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					
At 31 December 2016	9,058	738	925	3,336	14,057
Depreciation and impairments					
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)
At 31 December 2016	0	436	864	2,915	4,215
Net Book Value at 31 December 2016	9,058	302	61	421	9,842
Net Book Value at 1 January 2016	9,240	345	78	609	10,272

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 2017

Cost or valuation

Opening balance 1 January 2017
Additions
Impairment
Disposals

Intangible Assets £'000
118
118
88
30
118
0
30

At 31 December 2016

Amortisation and impairments

Opening balance 1 January 2017
Amortisation charge for 2017
Impairment
Disposals

At 31 December 2017

Net Book Value at 31 December 2017

Net Book Value at 1 January 2017

2015 Comparative

Cost or valuation

Opening balance 1 January 2016
Additions
Impairment
Disposals

Intangible Assets £'000
118
118
49
39
88
30
69

At 31 December 2015

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

9. Inventories

31st Dec 2017	Warehouse Stock £000's	Packing and Materials £000's	Total £000's
Opening inventory balance	12,373	63	12,436
Purchases	60,129	276	60,405
Recognised as an expense in year	(59,853)	(303)	(60,156)
Increase in Stock in Transit accrual	164	-	164
Reversals of write offs in previous years	0	-	0
Closing Inventory balance	12,813	36	12,849
Provision for stock write off	(100)	0	(100)
Closing Inventory balance net of provisions made	12,713	36	12,749

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
Closing Inventory balance	12,373	63	12,436
Provision for stock write off	(223)	0	(223)
Closing Inventory balance net of provisions made	12,150	63	12,213

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 2016 £'000	31st Dec 2017 £'000
Trade Debtors	8,053	9,681
Accumulated Absences	7	7
Less - Provision for Bad Debts	(66)	(112)
	7,994	9,576
Payments in Advance and accrued income	4,359	5,078
Total	12,353	14,654

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 2016 £'000	31st Dec 2017 £'000
central government bodies	0	0
other local authorities	5,736	5,931
NHS bodies	27	19
public corporations and trading funds	0	0
bodies external to general government (i.e. all other bodies).	2,289	3,730
	8,053	9,681

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 2016 £'000	31st Dec 2017 £'000
central government bodies	-	-
other local authorities	-	-
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	4,359	5,078
	4,359	5,078

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 2016 £'000	31st Dec 2017 £'000
Creditors and Receipts in Advance		
Trade Creditors	5,693	5,212
Accruals	1,764	2,455
VAT	-32	197
Accumulated absences	118	118
Total	7,543	7,982

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 2016 £'000	31st Dec 2017 £'000
central government bodies	-	-
other local authorities	47	38
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	5,646	5,174
	5,693	5,212

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 2016 £'000	31st Dec 2017 £'000
central government bodies	-32	197
other local authorities	607	642
NHS bodies	-	-
NHS bodies	-	-
public corporations and trading funds	-	-
bodies external to general government (i.e. all other bodies).	1,275	1,931
	1,850	2,770

Long Term Liabilities

Liability relating to Defined Benefit Pension Scheme

	31st Dec 2016 £'000	31st Dec 2017 £'000
Liability relating to Defined Benefit Pension Scheme	29,895	25,571
Total	29,895	25,571

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 :-

	2016 £'000	2017 £'000
Two to six months	1,890	2,843
Six months to one year	222	216
More than one year	61	111
Total	2,173	3,170

A general provision of £112k (2016 £66k) 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 2016 £'000	31st Dec 2017 £'000	Net Movement in the Year £'000	Note
<u>Usable reserves</u>				
General Fund Balance	28,818	28,261	(557)	i
Capital Receipts Reserve	85	85	0	ii
Internal Investment Reserve	1,770	1,696	(74)	iii
<u>Unusable reserves</u>				
Joint Committee Capital Adjustment Account	10,545	10,285	(259)	iv
Earmarked Pension reserve	(29,895)	(25,571)	4,324	v
Earmarked Accumulated Absences Account	(111)	(111)	0	vi
Revaluation reserve	0	0	0	vii
Total reserves	11,213	14,646	3,433	

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 2017 had a balance of £1m.

Notes to the Core Financial Statements

	2016 £'000	2017 £'000
General fund balance		
Balance brought Forward 1st of January	30,302	28,818
Surplus or deficit on operations	(4,039)	(3,593)
Total comprehensive income and expenditure	(4,039)	(3,593)
Depreciation and impairment	475	270
Revaluation losses (gains)		
Capital expenditure charged to the GF	(6)	0
Transfer of cash sale proceeds		
Use of UCRR to fund capital expenditure		
Reversal of IAS 19 charges to I&E	3,104	4,465
Employer's pension contributions	(1,549)	(1,773)
Movement in employee absence accrual	(2)	(0)
Total voluntary adjustments	2,023	2,962
Pension Contribution Reserve	-	-
Internal Investment Reserve	533	74
Total transfers to/from cash reserves	533	74
Total transfers to/from earmarked reserves	2,556	3,036
Balance Carried Forward 31st December	28,818	28,261
Movement in year represented in the Movement in Reserves Statement	(1,484)	(557)

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

	2016 £'000	2017 £'000
Usable Capital Receipts Reserve		
Balance brought Forward 1st of January	85	85
Amounts Received		
General receipts	-	-
Amounts Applied		
New Capital Investment	-	-
Balance Carried Forward 31st December	85	85
Movement in year represented in the Movement in Reserves Statement	-	-

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

	2016 £'000	2017 £'000
Internal Investment Reserve		
Balance brought Forward 1st of January	2,303	1,770
Transferred to Reserves		
Reserves for specific projects created in year	580	455
Amounts Applied		
Reserve balances utilised in year	(1,112)	(529)
Amounts released back to the General Fund		
Reserve balances no longer required and released back to the General Fund		
Balance Carried Forward 31st December	1,770	1,696
Movement in year represented in the Movement in Reserves Statement	(533)	(74)

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.

	2016 £000	2017 £000
Joint Committee Capital Adjustment Account		
Balance bought Forward 1st of January	11,014	10,545
Brought Forward adjustment		
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(475)	(270)
Revaluation (losses) gains on property plant and equipment		10
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	0	0
	10,539	10,285
Net Written out amount of the cost of non-current assets consumed in the year		
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-
Capital expenditure charged against the General Fund	6	0
	10,545	10,285
Balance Carried Forward 31st December	10,545	10,285
Movement in year represented in the Movement in Reserves Statement	(469)	(259)

(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.

	2016 £000	2017 £000
Earmarked Pension Reserve		
Balance bought forward 1st January	(16,827)	(29,895)
Actuarial Gains or (losses) on pension assets and Liabilities	(11,513)	7,016
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,104)	(4,465)
Employers pensions contributions and direct payments to pensioners payable in year	1,549	1,773
	(29,895)	(25,571)
Balance Carried Forward 31st December	(29,895)	(25,571)
Movement in year represented in the Movement in Reserves Statement	(13,068)	4,324

(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.

	2016 £000	2017 £000
Earmarked Accumulated Absences Account		
Balance bought forward 1st January	(113)	(111)
Settlement or cancellation of accrual made in preceding year	113	111
Amount to be accrued for current year	(111)	(111)
Amount to be charged to the Comprehensive Income and Expenditure Statement	1	0
	(111)	(111)
Balance as at 31st December	(111)	(111)
Movement in year represented in the Movement in Reserves Statement	1	0

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	2016 £000	2017 £000
Balance brought Forward 1st of January	0	0
Upward revaluation of assets	-	-
Difference between fair value depreciation and historical cost depreciation	0	0
Revaluation written out to the General Fund	0	0
Adjusting amounts written out of the Joint Committee Capital Adjustment Account		
Balance Carried Forward 31st December	0	0
Movement in year represented in the Movement in Reserves Statement	0	0

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	
	2016 Re-stated	2017
50,000 - 54,999	6	8
55,000 - 59,999	4	4
60,000 - 64,999	2	3
65,000 - 69,999	1	-
70,000 - 74,999	-	1
75,000 - 79,999	-	1
TOTAL	13	17

*2016's remuneration banding has been re-stated as the numbers disclosed in the 2016 Statement of Accounts did not include the lease car benefits.

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.

2017						
Post	Salary incl. BiK	Expenses	Pay in Lieu of Notice	Redundancy Pay	Pension Contributions	Total Remuneration
Managing Director	128,733	-	-	-	16,994	145,727
Executive Director	95,203	-	-	-	12,278	107,481
Executive Director	94,047	-	-	-	12,278	106,325
Executive Director	90,613	-	-	-	11,875	102,488
	408,595	-	-	-	53,426	462,021

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
	397,153	-	-	-	44,905	442,058

Notes to the Core Financial Statements

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

EXIT PACKAGE £	No. of compulsory redundancies		No. of other departures		Total no. of exit packages		Total cost of exit packages	
	2016 No.	2017 No.	2016 No.	2017 No.	2016 No.	2017 No.	2016 £,000's	2017 £,000's
0 - 20,000	-	-	1	8	1	8	13	55
20,001 - 40,000	-	-	-	3	-	3	-	90
40,001 - 60,000	-	-	1	-	1	-	45	-
60,001 - 80,000	-	-	-	-	-	-	-	-
80,000 and over	-	-	-	1	-	1	-	139
Total	-	0	2	12	2	12	58	284

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:

	2016 £000	2017 £000
Not later than one year	275	293
Later than one year and not later than five years	423	411
Later than five years	2,233	2,204
	2,931	2,908

Amounts charged, in respect of these leases, to the Comprehensive Income and Expenditure Statement during 2017 were £500k (2016 £470k) 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.

2016 £'000	YPO Profit & Loss	2017 £'000
	Trading	
71,924	Stores	71,111
15,625	Food	15,171
26,355	Directs	24,684
113,904	Total Invoiced Sales	110,965
(83,926)	Cost of Sales	(80,316)
29,978	Gross Margin	30,649
142	Discounts	128
4,335	Rebates	5,299
2,905	Other Income	2,216
37,361	Total Income	38,292
	Operating Costs	
(17,583)	Employment costs	(17,976)
(940)	Premises	(1,117)
(6,178)	Supplies and Services	(6,453)
(4,583)	Transport	(4,608)
(102)	SLA costs	(127)
(143)	Financial & Misc	(267)
(475)	Depreciation	(270)
(30,005)	Total Operating Costs	(30,817)
70	Interest (payable)/receivable	17
-	Profit/(loss) on disposal of assets	-
-	Dividend paid	-
-	Pension costs	-
7,426	Surplus or (deficit)	7,492

Notes to the Core Financial Statements

2016 £'000	Reconciliation of P&L Account to I&E Account	2017 £'000
7,426	Net Profit in P&L Account	7,492
(11,465)	Amounts in the Comprehensive Income and Expenditure Statement not reported to management	(11,085)
-	Amounts included in the P&L not included in the Comprehensive Income and Expenditure Statement	-
(4039)	Surplus/(Deficit) on provision of service	(3593)

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 2017	P&L Acct £'000	Amts not Alloc'n of rptd for mgt reporting dec making expenses		I&E Statement £'000
		£'000	£'000	
Total Invoiced Sales	110,965	-	-	110,965
Cost of Sales	(80,316)	-	-	(80,316)
Gross Margin				
Discounts	128	-	-	128
Rebates	5,299	-	-	5,299
Other Income	2,216	-	-	2,216
Total Income	38,292	0	-	38,292
Operating Costs				
Employment costs	(17,976)	-	-	(17,976)
Premises	(1,117)	-	-	(1,117)
Supplies and Services	(6,453)	-	-	(6,453)
Transport	(4,608)	-	-	(4,608)
SLA costs	(127)	-	-	(127)
Financial & Misc	(267)	-	-	(267)
Depreciation	(270)	-	-	(270)
Total Operating Costs	(30,817)	0	-	(30,817)
Interest (payable)/receivable	17	-	-	17
Profit/(loss) on disposals	-	-	-	0
Dividend paid	-	(7,864)	-	(7,864)
Earmarked reserves funding	-	(529)	-	(529)
Pension costs	-	(2,692)	-	(2,692)
Surplus or (deficit) on provision of service	7,492	(11,085)	-	(3,593)

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	
Total Invoiced Sales	113,904	-	-	113,904
Cost of Sales	(83,926)	-	-	(83,926)
Gross Margin				0
Discounts	142	-	-	142
Rebates	4,335	-	-	4,335
Other Income	2,905	-	-	2,905
Total Income	37,361	0	-	37,361
Operating Costs				
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)
Total Operating Costs	(30,005)	0	-	(30,005)
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)
Surplus or (deficit) on provision of service	7,426	(11,465)	-	(4,039)

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 59 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:

	2016	2017
	£'000	£'000
Barnsley	17,096	14,987
Bolton	9,998	5,932
Bradford	25,108	24,242
Calderdale	11,901	9,124
Doncaster	15,868	16,229
Kirklees	27,367	30,981
Knowsley	9,820	8,089
North Yorkshire	22,882	17,917
Rotherham	13,231	11,243
St Helens	11,138	9,986
Wakefield	21,333	16,364
Wigan	16,387	12,878
York	6,461	5,851
	208,590	183,822

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.

	Transactions Value (Ex VAT) for the year £	Outstanding Balance as at 31st Dec 2017 £
YPO Procurement Holdings	-	-
YPO Supplies Ltd	1,470,391	261,913

18. AUDIT COSTS

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

	2016	2017
	£000	£000
Audit Costs		
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	23	23

Notes to the Core Financial Statements

19. EVENTS AFTER THE BALANCE SHEET DATE

The 23rd March 2018 Management Committee Meeting approved the pre audit statement of Accounts and agreed a profit distribution in respect of the 2017 trading year of £7.492m 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 25th May 2018 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.

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

Finance Lease

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

Financial Instrument

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

Financial Procedure Rules

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

Impairment

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

International Accounting Standards (IAS)

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

International Financial Reporting Standards (IFRS)

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

Inventories

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

Liability

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

Net Book Value

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

Net Expenditure

Gross expenditure less specific income.

Outturn

Actual income receivable and expenditure due in a financial year.

Payments in Advance

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

Prior year adjustments

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

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as

far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Reserve

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

Turnover

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

Useful life

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

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REPORT TO
AUDIT & SCRUTINY SUB-COMMITTEE
TO BE HELD ON
25TH MAY 2018

TITLE: 2018/19 WORK PROGRAMME

REPORT OF: MANAGING DIRECTOR

1. PURPOSE OF REPORT

1.1 To provide members with an overview of the work scheduled for the 2018/19 committee cycle.

2. BACKGROUND INFORMATION

2.1 The Audit and Scrutiny Sub-Committee has a membership of sixteen members drawn from the Management Committee who meet three 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 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

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834912
E-mail address: simon.hill@ypo.co.uk

APPENDICIES:

Appendix 1 - Terms of Reference 2018/19
Appendix 2 - Principal Agenda Items
Appendix 3 - Meeting Schedule
Appendix 4 - Training Schedule

PRINCIPAL AGENDA ITEMS 2018 - 2019

MANAGEMENT COMMITTEE

November 2018	Author	Agenda
Budget and Business Plans for 2018	PS/S Hall	Private
Business Update	SH	Private
YPO Pay Policy	JW	Public
Lead Authority Issues	BL	Public
Appointment of Auditors	PS	Public
Report of Independent Director	Independent Director	Private

March 2019	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	JG	Public
Lead Authority Issues	BL	Public
Business Update	SH	Private
Report of Independent Director	Independent Director	Private
Internal Audit Plan	JG	Public

June 2019	Author	Agenda
Annual Report	SH	Public
Audited Accounts <i>(For information only)</i>	PS/S Hall	Public
Governance Review	PS/AHG	Public
TOR and Work Programme	SH	Public
Business Update	SH	Private
Report of Independent Director	Independent Director	Private
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

PRINCIPAL AGENDA ITEMS 2018 - 2019

EXECUTIVE SUB COMMITTEE

November 2018	Author	Agenda
Financial Performance Report (Forecast for next year)	PS/S Hall	Private
Lead Authority Issues	BL	Public
Business Update	SH	Private
Cost Saving	SH/ PS	Private
Stock Losses Report	PS	Private
Strategy Update	PS	Private

March 2019	Author	Agenda
Financial Performance Report (Earmarked Reserves Spend to be included in this) (Review of previous year performance)	PS/S Hall	Private
Lead Authority Issues	BL	Public
Business Update	SH	Private
Standing Orders & Financial Procedure Rules	PS/S Hall	Public

June 2019	Author	Agenda
Financial Performance Report (Mid-year performance update)	PS/S Hall	Private
Business Update	SH	Private
Lead Authority Issues	BL	Public
Exec Sub Work Programme & TOR	SH	Public

PRINCIPAL AGENDA ITEMS 2018 - 2019

AUDIT & SCRUTINY SUB COMMITTEE

November 2018	Author	Agenda
Internal Audit Plan Template 2018	JG	Public
Risk Management Process	PS/AHG	Public
Risk Register	PS/AHG	Private
Year End Closedown Timetable	PS/S Hall	Public
External Audit Plan	KPMG	Public
Annual Audit Letter	KPMG	Public
IT Programme Update	GR	Private
Warehouse & Logistics Strategy	JW	Private
Appointment of Auditors	PS	

February 2019	Author	Agenda
Internal Audit Action Update	PS/AHG	Private
Annual Governance Statement	PS/S Hall	Public
Pre-Audit Statement of Accounts	PS/S Hall	Public
Internal Audit Annual Report 2018	JG	Public
Internal Audit Plan 2018	JG	Public
IT Programme Update	GR	Private
Commercial Strategy/ Sales Analysis	JM	Private
Stock Adjustments	PS	Private
Gifts & Hospitality	JW	Public

May 2019	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/ AHG	Public
Internal Audit Progress	JG	Public
IT Programme Update	GR	Private

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Yorkshire Purchasing Organisation

Management Committee Terms of Reference 2018/19

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 2018/19****Number of Members**

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

Quorum

Member representation from at least three Member Authorities.

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 individual capital investment proposals, in line with the overall investment plan agreed by the Management Committee.
2. 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 2018/19****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

Member representation from at least four Member Authorities.

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 2018/19

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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Date of Meeting		Board Meeting	Strategic Officers Meeting	Executive Sub Committee	Management Committee	JCC Members Meeting	Audit & Scrutiny Sub Committee	Partnership Liaison Meeting
July								
24/7	9:00	Board Meeting						
August								
28/8	9:00	Board Meeting						
September								
25/9	9:00	Board Meeting						
October								
11/10	9:00							Partnership Meeting
16/10	10:30		Strategic Officers					
23/10	9:00	Board Meeting						
November								
2/11	10:30						Audit & Scrutiny Sub	
16/11	10:30			Executive Sub				
27/11	9:00	Board Meeting						
30/11	9:30					JCC		
30/11	10:30				Management Committee			
December								
18/12	9:00	Board Meeting						
January								
22/1	9:00	Board Meeting						
February								
TBC	11:00							Partnership Meeting
5/2	10:30		Strategic Officers					
15/2	10:30						Audit & Scrutiny Sub	
26/2	10:30	Board Meeting						
March								
8/3	10:30			Executive Sub				
22/3	9:30					JCC		
22/3	10:30				Management Committee			
26/3	9:00	Board Meeting						
April								
30/4	9:00	Board Meeting						
May								
TBC	9:00							Partnership Meeting
14/5	10:30		Strategic Officers					
24/5	10:30						Audit & Scrutiny Sub	
21/5	9:00	Board Meeting						
June								
7/6	10:30			Executive Sub				
21/6	9:30					JCC		
21/6	10:30				Management Committee			
25/6	9:00	Board Meeting						

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TRAINING SCHEUDLE FOR 2018 - 2019

	EXEC SUB COM	AUDIT & SCRUTINY SUB COM
Date and Training Topic	16 th November 2018 Warehouse & Logistics Strategy Julie Wray	2 nd November 2018 External & Internal Audit Relationship Julie Gill
Date and Training Topic	8 th March 2019 Commercial & Customer Strategy Jo Marshall	15 th February 2019 Risk Management Andrea Hirst-Gee/ Steven Hall
Date and Training Topic	7 th June 2019 Business Planning Steven Hall	24 th May 2019 Financial Management Steven Hall

TRAINING TOPICS FOR 2019-2020:

- Workforce/ People Strategy
- Procurement Services Strategy
- IT Strategy & Business Change Programme

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YPO
AUDIT & SCRUTINY SUB-COMMITTEE
TO BE HELD ON
25TH MAY 2018

TITLE: GOVERNANCE REVIEW

REPORT OF: MANAGING DIRECTOR

1. BACKGROUND INFORMATION

- 1.1 YPO has in place various governance policies and supporting documents that set out our approach to managing the organisation. These are reviewed regularly and any changes are brought to Management Committee for approval.
- 1.2 During the last 12 months the following policies and protocols have been reviewed with the recommended actions detailed below:

Item	Latest Status	Proposed Action
Anti-Fraud & Bribery Policy	Reviewed July 2017	No further action
Gifts & Hospitality Policy, Register & Declaration	Reviewed July 2017	No further action
Register of Employee Interests, Register & Declaration	Reviewed July 2017	No further action
Standing Orders for Contracts	Reviewed January 2018	Deliver training to relevant staff
Financial Procedure Rules	Reviewed January 2018	Deliver training to relevant staff
Annual Governance Statement & Local Code of Governance	Published Jan 2018	Ongoing work to develop the AGS into an annual governance report
Risk Management Policy & Strategic Framework	Reviewed Jan 2018	Roll out training on risk appetite
Strategic Risk Register, Fraud & Bribery Risk Assessments	Reviewed Jan 2018	No further action

2. STRATEGIC IMPLICATIONS

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

3. FINANCIAL/RESOURCE IMPLICATIONS

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

4. LEGAL IMPLICATIONS

- 4.1 These governance documents aid compliance with various pieces of legislation such as the Bribery Act 2010 and good practice such as the CIPFA / SOLACE Governance Framework 2016.

5. RISK IMPLICATIONS

5. This is an update to a procedure supporting the governance of the organisation and part of YPO's overall framework for managing risk.

6. CONSULTATION

- 6.1 The individual documents listed above were subject to appropriate consultation before they were finalised and approved.

7. OPTIONS APPRAISAL

- 7.1 Not required.

8. RECOMMENDATIONS

- 8.1 That the Audit and Scrutiny Sub-Committee recommends to the Management Committee that the proposals outlined in the table at 1.2 are adopted.

9. REASONS FOR RECOMMENDATIONS

- 9.1 It is essential to maintain the effectiveness of YPO's governance arrangements.

SERVICE DIRECTOR: SIMON HILL, MANAGING DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834912
E-mail address: simon.hill@ypo.co.uk

CONTACT OFFICER: ANDREA HIRST-GEE, ASSISTANT FINANCIAL CONTROLLER

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821740
E-mail address: andrea.hirst-gee@ypo.co.uk



YPO
AUDIT & SCRUTINY SUB-COMMITTEE
TO BE HELD ON
25TH MAY 2018

TITLE: PROGRESS ON THE 2018 INTERNAL AUDIT PLAN

REPORT OF: INTERIM HEAD OF INTERNAL AUDIT & RISK

1 PURPOSE OF REPORT

- 1.1 This report is produced by the Interim Head of Internal Audit & Risk to provide Members with details of Internal Audit's performance and work since the last meeting of the Audit & Scrutiny Sub-Committee on the 16th February 2018.

2 BACKGROUND INFORMATION

- 2.1 The report attached at Appendix A records details of audit work undertaken, and reports issued, between 1st January 2018 and 31 March 2018.
- 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 2018 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 2018 budget approved by YPO Members.

5 LEGAL IMPLICATIONS

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

6 EQUALITY IMPLICATIONS

- 6.1 Equality issues are taken into account when considering the Organisation's key strategic risks.

7 RISK IMPLICATIONS

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

Contact Officer: JULIE GILL, HEAD OF INTERNAL AUDIT & RISK (WAKEFIELD COUNCIL)

Telephone No: 01924 306319

E-mail address: jgill@wakefield.gov.uk

Internal Audit Progress Report As At 31 March 2018

REPORT OF:

Julie Gill, Interim Head of Internal Audit & Risk
(Wakefield Council)
Email address: jgill@wakefield.gov.uk

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 & Scrutiny Sub-Committee on the 16th February 2018.
 - 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 2018 AUDIT PLAN

2. Two Internal Audit reports have been issued since the last meeting of the Audit & Scrutiny Sub-Committee in February 2018, as shown below:

Report	Audit Opinion in Report / Main Messages in Report	Actions Taken By YPO
<p>Link Programme</p> <p>(Interim report on findings to date issued 13/03/2018)</p>	<p style="text-align: center;">Not applicable</p> <p>The main issues arising from discussions to date are:</p> <ul style="list-style-type: none"> • The timescale for delivery of the project is tight and is likely to remain so for the lifetime of the project. There is a maximum window of delivery through to the 1st April 2019 – this allows for a modest element of slippage. • Factors which had an effect on progress up to the date of the Audit report were, adverse weather and the level of sickness. However, it was considered that such risks were being effectively managed and this area will be re-visited as part of the next review • Assurance was given that the budget remains on target. • Evidence was also seen of the reports to the Business Change Board (BCB), the latest report appeared to cover all key aspects of the Link programme. 	<p>There is no action plan / reply due in relation to this report</p>

	Further meetings have already been arranged throughout 2018, with areas for review agree. The next area for consideration will be security levels within MSNAV	
YPO Limited Company (Report issued 22/03/2018)	<p style="text-align: center;">Mostly Effective</p> <p>Generally it was found that that the arrangements were operating effectively in line with those put in place in establishing the limited company in 2014. The need for a periodic review of the Trading agreement had already been identified and was in the process of being completed at the time of the audit.</p> <p>The main area for improvement arising from this review was:</p> <ul style="list-style-type: none"> • Arrangements within the Limited Company relating to strategic risks; the Fraud risk Assessment and the Bribery risk Assessment had not been reviewed since 2016 and therefore needed to be revisited and updated. 	The action plan is not due to be returned until 25/05/2018. Therefore, written details of the actions taken by YPO will be included in the next Internal Audit Progress Report.

4. As at the date of producing this report, the following Internal Audit work is ongoing:

2017 Audit Plan

- 4.1 IT Change Control (the final Report is due to be issued by 11 May 2018)
- 4.2 Workforce Skills (all testing has now been completed and will be reported by the end of May 2018)

2018 Audit Plan

- 4.3 Anti-fraud and Bribery arrangements
- 4.4 Adherence to Legislation (specifically GDPR)
- 4.5 Consultation / 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 31 March 2018 is summarised below:
 - 5.1 A three year Audit Plan was agreed at the previous meeting of the Audit & Scrutiny Sub-Committee covering 2018 – 2020. This is the first year of the three year plan and at the present time, it is envisaged that the individual reviews detailed in the plan will be completed by the 31 December 2018. Two reviews were scheduled for the first quarter of the plan year, both of which have commenced (as detailed in paragraph 4 above).
 - 5.2 One client survey has been issued so far in 2018. This has been returned with an overall opinion of ‘Very Good’ (YPO Limited Company).
 - 5.3 All Internal Audit work is subject to a quality control process, including formal review of work by the appropriate level of audit management.

WORK PRIORITIES FOR THE NEXT FEW MONTHS

6. The priorities for Internal Audit up to the end of June 2018 will be the finalisation of the ongoing audits from 2017 and commencement of the audits detailed for review in the first 6 months of 2018 being:
 - 6.1 Anti-fraud and Bribery arrangements (work ongoing)
 - 6.2 Adherence to Legislation - specifically GDPR (work ongoing)
 - 6.3 Stock Control
 - 6.4 Risk Management Arrangements / Review of Strategic risk
 - 6.5 Consultancy / advice-type support to the Link programme will continue as requested.

OUTSTANDING REPLIES TO AUDIT REPORTS

7. There were two replies outstanding as detailed in the annual report to the Audit & Scrutiny sub-Committee in February 2018 with the due dates for reply not until March 2018. A reply has been received to both reports, the details are shown below

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
Main Financial Systems 2017 – /01/18 - Implementation of Previously Agreed Actions - Payroll	<p style="text-align: center;">Fully Implemented</p> <p style="text-align: center;">Mostly Effective</p> <p style="text-align: center;">Mostly Effective</p>	<p>An interim and full action plan have been returned to Internal Audit.</p> <p>With regards Payroll actions, A spreadsheet has been created that compares year on year people costs and highlights any significant movements. In regards to mitigating overtime</p>

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
<ul style="list-style-type: none"> - Debtors – Business Income - Debtors – Non-Business Income 	<p style="text-align: center;">Mostly Effective</p> <p>This year’s audit marked the continuation of a new approach to auditing the main financial systems. Rather than covering all nine systems annually, the intention is for them to be covered over a three-year cycle. The main benefit of this 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 assessments of ‘mostly effective’ for ‘Payroll; Debtors Business Income’ and ‘debtors – Non-Business Income’ recognise that, in the main, risks are being managed to an appropriate level, with appropriate controls established and in place.</p>	<p>this is picked up with the Head of Logistics & Operations when doing the Operations budget. The Finance Business Partners also pick this up with their areas in the budget reviews.</p> <p>Roll out Employee and Manager Self-Service in 2018. Controls will be built into the system functionality to restrict access to data as needed. Work is also being explored with the team to allow automatic upload of .CSV data files from the Vanquish Time and Attendance system for such things as overtime, etc.</p> <p>A random number generator system is currently being used to check data input into iTrent and is checked then countersigned by one of the HR Management Team on a monthly basis.</p> <p>It was confirmed that: appropriate system accesses within the Customer Management Team, E-Communications Team and Customer Services team have been implemented that will enable separation of duties; Reminders relating to the credit checking of new customers have been issued and assigning of credit limits has been implemented.</p> <p>Credit checks for new academies with no historic trading history would follow standard procedure for account opening. It was also agreed that for state schools with a trading history with YPO who convert to an academy with no outstanding debt will only have their status updated without the need for a new account. Schools converting to an academy with outstanding debt will require a new account to be produced</p> <p>Engagement has taken place across the various teams and any system privileges that conflicted with the environment providing separation of duties have now been revoked</p>

Report	Audit Opinion In Report / Main Messages In Report	Actions Taken By YPO
<p>Procedures in place for delivering Business Planning Objectives / Priorities – Follow up review – 10/01/18</p>	<p>Mostly Implemented</p> <p>It was confirmed that actions have been fully implemented in relation to many of the issues raised in the original audit. However, the main issue still to be progressed relates to the completion of risk registers.</p>	<p>Reply / evidence now received that the risk registers have been completed as follows:</p> <p>2018 Strategic Risk Register & covering report 2018 Bribery Risk Assessment, 2018 Fraud Risk Assessment & covering report Risk Management Framework report Feb 2018</p> <p>A review of operational risk registers is currently underway and is expected to be completed by the end of May 2018.</p>



YPO
AUDIT & SCRUTINY SUB COMMITTEE
TO BE HELD ON
25TH MAY 2018

TITLE: LEAD AUTHORITY SLA COST

REPORT OF: HEAD OF FINANCE

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 2017 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 2017 is shown in appendix 1. The payments were as follows: -

- £302,856 for Fleet services.
- £45,250 for the Internal Audit function. (125 days at £362 per day)
- £17,646 for Legal Services. This covers support at meetings and operational legal support and advice, including chairing the Strategic Officers Group
- £23,958 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 Management Committee in March 2017 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
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834969.

E-mail address: paul.smith@ypo.co.uk

CONTACT OFFICER: STEVEN HALL, HEAD OF FINANCE

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821775

E-mail address: steven.hall@ypo.co.uk

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 2017

	£	£
Fleet Services		
Fixed Maintenance Charges	208,400	
Fleet Management / Support	50,492	
O License Compliance Fee	43,964	302,856
SLAs		
Internal Audit fees		45,250
Legal Services		17,646
Financial Services		23,958
HR Services		40,500
Grand total		430,210

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YPO
AUDIT & SCRUTINY SUB-COMMITTEE
TO BE HELD ON
25TH MAY 2018

TITLE: INTRODUCTION TO RISK APPETITE

REPORT OF: EXECUTIVE DIRECTOR

1. BACKGROUND INFORMATION

- 1.1 At the last meeting in February 2018 the Audit & Scrutiny Sub-Committee considered YPO's updated Risk Management Policy and Strategic Framework and expressed an interest in learning more about risk appetite.
- 1.2 It was agreed that a workshop would take place at a future meeting but before then the attached presentation goes into more detail about risk appetite, what it means at YPO and how to identify and explore it further.
- 1.3 No decisions are required at this stage and this paper is for information. Risk implications are always included in all decision-making reports and will outline how the decision fits within YPO's risk appetite.

2. STRATEGIC IMPLICATIONS

- 2.1 It is important that the committee have a good grasp of YPO's risk appetite to aid in assessing the decision making of the organisation.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial implications associated with this report.

4. LEGAL IMPLICATIONS

- 4.1 There are no legal implications associated with this report.

5. RISK IMPLICATIONS

- 5.1 The presentation attached and the further work proposed will help to provide a better understanding of YPO's risk appetite and how it influences our risk management arrangements.

6. CONSULTATION

6.1 None.

7. RECOMMENDATIONS

7.1 That Audit & Scrutiny Sub-Committee note the contents of the presentation as a basis for further work on risk appetite.

8. REASONS FOR RECOMMENDATIONS

8.1 The Audit & Scrutiny Sub-Committee have expressed an interest in learning more about YPO's risk appetite.

SERVICE DIRECTOR: PAUL SMITH, EXECUTIVE DIRECTOR

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 834969
E-mail address: paul.smith@ypo.co.uk

CONTACT OFFICER: ANDREA HIRST-GEE, ASSISTANT FINANCIAL CONTROLLER

YPO
41 Industrial Park
Wakefield
WF2 0XE

Telephone No: 01924 821740
E-mail address: andrea.hirst-gee@ypo.co.uk

APPENDIX

Appendix 1: Introduction to Risk Appetite Presentation



Better value, delivered.

Presentation to:

Audit & Scrutiny Sub-Committee

25th May 2018

Introduction to Risk Appetite

Risk Appetite

- Context: Risk & Risk Management
- Risk Culture, Risk Perception, Risk Tolerance, Risk Appetite
 - what's the difference?
- Why is it important to understand Risk Appetite?
- What is YPO's Risk Appetite?
- How we can find out more about our Risk Appetite?



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Context – Risk & Risk Management

Risk is:

- The effect of uncertainty on objectives
- The potential for harmful (threat) or positive (opportunity) outcomes
- The potential to lose or gain something of value

Risk Management is:

- The co-ordinated activities to direct and control an organisation with regard to risk
- Two key phases to risk management
 - Risk assessment (identification, analysis, evaluation)
 - Risk treatment (the “4 Ts” – tolerate, treat, transfer, terminate)

Context – Why do we take risks?

- We all take risks every day, at home, at work, with our finances
- Organisations exist to achieve their objectives: they have to take risks to achieve these objectives, especially when they plan to grow, develop and take on new challenges
- It's good to take some risks, the key is to identify them, understand them and manage them
- The type and level of risk we are prepared to take depends on our:
 - Risk culture
 - Risk perception
 - Risk tolerance
 - Risk appetite



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Risk Culture

- Risk culture is the values, beliefs, knowledge, attitude, and understanding of risk shared by the employees of an organisation
- An organisation's risk culture influences how it manages the risks it takes to achieve its objectives
- Every organisation has a risk culture, whether it recognises it or not
- Organisations that recognise their risk culture manage their risks much more effectively than those that don't
- An effective risk culture enables and rewards individuals and groups for taking the right risks in an informed manner

Risk Perception

- Our risk culture, risk tolerance and risk appetite depend on our perception of risk
- Everyone's risk perception is different: it is influenced by factors such as
 - Our life experience
 - The results or outcomes of similar circumstances, situations or risks
- In a large organisation there will be a mix of people with different perceptions of risk
- All of these different perceptions will influence how the organisation perceives risk



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Risk Appetite & Risk Tolerance

- Risk Appetite is the amount and type of risk that an individual or an organisation is prepared to take to achieve its objectives.
- Risk Appetite means different things to different people and is influenced by individuals' and groups' perceptions and experience of risk
- The terms Risk Tolerance and Risk Appetite are often used interchangeably but they are different
- Risk Appetite expresses our inclination to take risks
- Risk Tolerance sets the limit beyond which we will not take a risk. This is often given as an absolute such as the value of an investment.

Why is it important to understand our Risk Appetite

- If we don't understand our risk appetite (and the factors that influence it such as our individual and collective risk perceptions) then we may be inclined to make subjective decisions based on feelings and opinions rather than objective decisions based on empirical evidence
- Our risk appetite influences how we evaluate (score) risks and treat them. If our risk appetite is too high for the risk then we will not put sufficient controls in place to manage it and there is a greater likelihood of the risk coming about and / or having a more significant impact.
- However, if our risk appetite is too low for the risk then we will put unnecessary controls in place. This creates inefficiency and stifles innovation and effective the delivery of our objectives.
- A difference of opinion on risk appetite can lead to important and illuminating discussions before decisions are finalised.



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What is YPO's Risk Appetite?

YPO's current Risk Management Policy and Strategic Framework says:

“YPO operates within a variable overall risk range. YPO's lowest risk appetite relates to health and safety and legal compliance objectives. The organisation is willing to take calculated commercial risks with a higher risk appetite towards its strategic and operational objectives.”

What does this mean? Essentially it means that we have a different risk appetite depending on what we're aiming to achieve. We do not want to take risks with our employees health, safety and wellbeing. We do want to take risks to grow and develop our business and take on new challenges. We will have a different risk appetite to issues in between.

How can we find out more about our Risk Appetite?

- The best way to find out more about our risk appetite is to explore it
- As an individual think about what knowledge and experience influences your own perception of risk and therefore your risk appetite
- What type of risks are you most and least comfortable taking?
- Now think about those factors and how they are influenced by the different groups you belong to. Think also about how your own risk perception and risk appetite influences the groups you belong to.
- Now think about the role in the organisation of each of those groups and how their collective risk perception and risk appetite influences the organisation's approach to risk.
- Are these approaches aligned? Or are they in conflict?
- We can take this work further forward with a Risk Appetite workshop.



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Thank You

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Agenda item 14 - Restricted document

Agenda item 15 - Restricted document